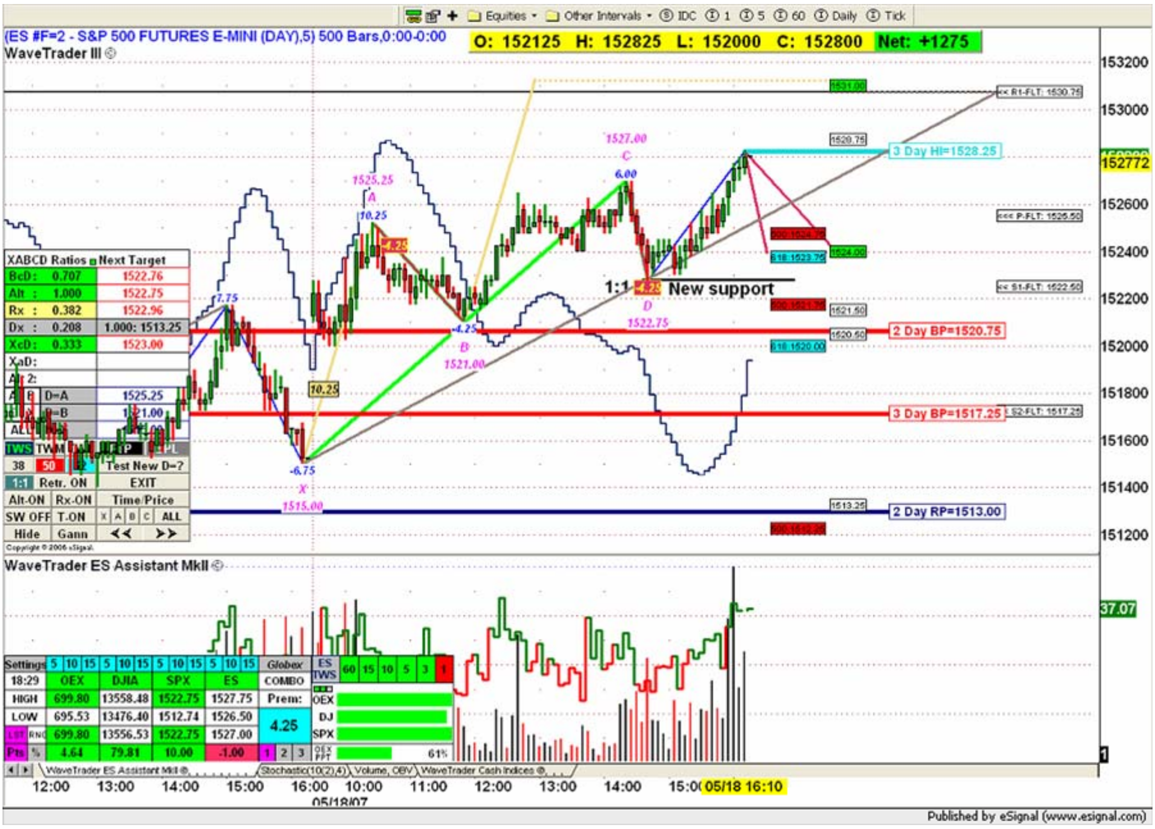
Price Action

My method for trading ES - S&P500 stock index futures

One Day at a Time

2nd Edition [C] Bryce Gilmore 2008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WaveTrader Cash Indices ©
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BcD: 0.707	1522.76
Alt : 1.000	1522.75
Rx : 0.382	1522.96
Dx : 0.208	1.000: 1513.25
XcD: 0.333	1523.00
XaD:	
Alt 2:	
D=A	1525.25
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LOW	695.53	13476.40	1512.74	1526.50	4.25
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Price Action – One day at a time – 2nd Edition – January 2008

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The Author:

This is my last book on the subject of trading. I may from time to time add to its contents, but only if I think something is lacking.

Nevertheless let me tell you I have recently hit the big 60 and I am retired from trading now. I am not as fast and fit as I used to be at taking money off idiots so I am giving everyone else a chance to do it rather than let the opportunity go by.

I am now involved with our trading software business and some education which consumes most of my free time and keeps me active.

At the end of the day I have been down the track and I know what works and what doesn't. So take this Price Action material for what you think it is worth and follow the yellow brick road.

Bryce Gilmore (BBG) – 5th January 2008

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My Method

Bryce Gilmore:

I have been involved with the futures markets as a trader and an analyst for 25 years or more. This was after I retired from a successful career in the car business as a trader in the wholesale area – dealer to dealer.

When I first began with the futures industry I started trading ad hoc as everyone does and after a few months realized I needed more knowledge to keep doing it. I then looked at systems trading and did that for several years and was mildly successful at it until I realized that was not the way to proceed long term. I realized I needed more knowledge so I went and studied all the esoteric market material I could lay my hands on as far back as I could and in the search found out about the Elliott, Gann, and Edwards & Magee teachings which were more to do with discretionary trading principles. I even found some good material reading books written by Larry Williams and one by J. Welles Wilder Jnr.

I had a taste for trading due to my background and my gambling habits; I have studied every gambling system and odds at one stage or another to try and beat the bank. Nevertheless I can never say any of these things I learnt and was good at were ever that consistent. I never lost but I never wanted to make a life out playing cards for a living. I was better at backgammon and always won.

What appealed to me about the futures markets was the fact that there were no limits and you never had to deal face to face with your adversaries. You could be a virtual unknown and as long as you had money in an account you could place trades on anything you wished and no one asked any questions.

I am not publishing my work to brag about it but simply not to let it go to waste as I have what you could consider half a life time invested in it.

Trading is a lifestyle and you are either in it or out of it. I am now retired as a futures trader but prior I have been working with my programmer for a few years designing new software to make all the things that have been successful to me an ongoing income source. I make no apology for doing this.

You have a choice in life to do whatever you want to do. If you want it easy you pay for it. Once you see what I have you will gladly pay for it.

So if you are willing to listen to me I can show you how to win at trading and when you have learnt how it should be done you will thank me. All the guys I learnt from are dead now so all I am doing is updating the education.

The basic premise we start with is that all markets move along in up and down spurts negotiating price levels which are referred to as SUPPORT & RESISTANCE.

In futures markets we have an equal amount of buyers and sellers holding an opposing view. The direction in which price moves is dictated by the strength of either side at anyone time. If there are more buyers than sellers the price will rise. If there are more sellers than buyers the price will go down. It is that simple.

When the market is perceived to be at a value that dictates SUPPORT buyers will appear and so long as they outnumber the current ladder of sellers present the market will reverse direction and turn up. The extent to which it will rise will be dependent on an increasing number of buyers participating in the new change of direction. Often a move upwards will gain momentum as the existing sellers already holding short positions are forced to cover by buying back their shorts. This has the effect of fueling any upward move in progress until such time as the buying dries up. Price will generally continue to rise until such time as it is perceived to reach a level of RESISTANCE and new sellers start entering the market again. This process continues ad infinitum, day in and day out.

All we need to understand to be successful in trading is to read which side is in control of the direction and act on it.

The first rule you need to understand in trading is not to procrastinate. Always stick to your rules and monitor the market as it creates new support and resistance zones. If the market is active, the bias in direction is always going to be aimed at where the volume is coming from. So if you see increasing volume on the buy side then you must agree the buyers are in control. If the market is going down on increasing volume, you have to agree that the sellers are in control.

Making money from the market is all about utilizing the opportunity given to you, nothing more and nothing less.

You may think that you are smarter than the market and can forecast where it will go. You may even be right for an hour or a day. But then times will change and you will not know where it is going unless you understand the definition of support and resistance.

Support and resistance is all that matters to the most astute traders. If you want to become a successful trader, you need to get to work and understand where the levels are. Support and resistance are market areas where traders make decisions to buy or sell, they are not levels worked out by an algorithm or a black box.

You can identify SUPPORT & RESISTANCE easily on a price chart and that is what I am going to show you.

SUPPORT & RESISTANCE can be measured in relative degree, for instance a support or resistance level on a weekly chart could be referred to as MAJOR support or resistance. Support or resistance on a 5 minute chart could be seen as MINOR support or resistance. In between MAJOR and MINOR there could be several degrees of implied support or resistance which I shall refer to as LARGE, MEDIUM and SMALL. We can identify these levels using 15 minute, 60 minute and daily price charts.

The next thing one needs to understand is that there are a wide variety of traders in any market. They can be split into several groups but the dominate group is the DAY TRADING brigade as they generate well over 80% of the daily trading volume. These guys all operate on short term horizons and have habits that if you can understand will allow you to profit on this knowledge alone.

The outline for this manual will be to show you the various trading setups that arise several or more times a day in many cases and explain the conditions that you need to witness to make them viable at the time.

My approach is to only take trades at a defined level where it is possible to place a very tight stop loss (in the case of the eMini ES sometimes less than 6 market ticks or under $75 a contract).

The main objective I have is to enter a trade only when conditions are precise and the trade has a better than 50% chance to work immediately. If the trade does not work immediately I will scratch it and go back to the drawing board. If the stop loss gets hit well the trade will only result in a small loss.

The actual trade entry techniques I will show you are precise and must be executed correctly to contain the risk; they are all based on the PRICE ACTION of the market and in most instances use confirming indicators to justify the entry levels. The approach I use is to only trade short term and never hold a position overnight, nevertheless the entry techniques are equally as valuable to position traders who want to make entries where they can control their risk.

Bryce Gilmore
April 2007

Chapter 1

The basic approach:

To WIN you must be buying when the market is going UP and selling when the market is going DOWN. When the market is marching time, you should be ready and waiting for a new opportunity.

The plan I use to trade commodity futures is a simple one. As the market moves along, all I do is calculate the next closest support or resistance level where the professional traders will buy or sell in force.

These levels or decision points are predictable because professional traders are creatures of habit. Professional traders play by rules and if you understand the rules they use, you place yourself in a position of knowledge. This way you become one of them and get to share in the money left on the table by the non professionals who make up 90% of the players in most markets.

Professional traders have strategies where they act on the PRICE ACTION in the market. This way they don't have to wait until some system or indicator rolls around and tells them what should happen next. The market tells them almost immediately if they are going to be right or wrong.

I take my trades as close as I can to the implied level of support or resistance and place a tight stop loss sometimes as close as 3 ticks, from my entry but no more than 6 ticks. I am either going to be right or wrong, but my losses will be very small.

The two approaches I use are:-
In a bullish trend - buy into weakness (corrections) or on market breakouts up.
In a bearish trend - sell into strength (corrections) or on breakouts down.

All you need to do to succeed in this business is to treat it as a CHESS GAME, be patient and work to a plan.

1. First you learn the moves it will take to win.
2. You plan your attack.
3. You execute your plan flawlessly.

You can lose a piece here and there but when things flow your way, you will catch so many more than you lose so you will be the winner and generally very quickly.

The market always follows the path of least resistance as buyers overwhelm sellers or sellers overwhelm buyers. This is basic law of nature - the strongest always wins.

The first part of our trading plan is to establish which side of the market is in the commanding position, buyers or sellers.

The second part of our plan is to determine the levels where the losing side will recognize if they are on the wrong side of the action. The beauty of the futures markets is that anyone on the wrong side of the price action has to take a reverse position to what they are already holding to get out. If they want to reverse their position, they have to trade double the quantity. At times like these the vacuum of people still buying or selling in the wrong direction is eaten up very quickly and the market can move very sharply until it regains a new equilibrium.

Most of the time the intraday market moves slowly in one direction or the other and is only good for small profits 4 or 5 times a day. Nevertheless there are times when the market will become exhausted in either direction and then move very quickly to find a new equilibrium where the buyers and sellers will even up again.

There are many reasons why the market will trend either upwards or downwards on any given day and most of them are of no consequence to us. This is if we believe that the price action is the main guide we need to follow. Opinions are dangerous in the trading business because the daily price action can move both in a trending and counter trending direction. This is simply due to liquidity concerns or the actions of technical traders.

The day to day market movements are basically controlled by the technical speculators who have a very short time frame perspective and don’t care what the market will do or where it may go next week or next year. In just the same way, they have to deal with the reality of the investor segment of the market. These traders will buy or sell in large volumes as the specific signals they follow are obvious.

The investment side of the stock market does not care about the day to day “noise” of a 10-20 point move in the ES. Yet at certain levels they will buy because it is prudent to do so or sell if they think it is the correct action to take. Their reasons could be technical or fundamental so it pays to monitor the market technical position in three mediums if you want to get the most out of it.

The medium the market moves in can be boiled down to 3 things; major degree, medium degree and minor degree.

You need to be aware of all three to make the most out of your speculation.
The activities of the INVESTOR SEGMENT can be detected mostly from the PRICE ACTION in a daily price series.

The activities of the medium term investors or speculators can be detected from the PRICE ACTION in a 60 minute price series.

The activities of the INTRADAY TRADERS are revealed in a 5 minute and 15 minute price series.

I don't look much below 5 minutes but sometimes on a volatile day it will be necessary to review the 1 minute price action to finesse your entries and exits in a fast moving market.

I have been telling people for years that this is not rocket science. It is only commonsense. Some people believe me and have been very successful as a result. Others haven't listened and although successful to a degree, they do not achieve the best results possible.

If you look at the market price action on a daily chart and count the obvious swings it travels through, you may see over a period of one year perhaps, 400 points of swings both up and down that gave you trading opportunities. If you banked on finding an approach that perhaps gave you a chance to capture 25% of them you are restricted to a maximum opportunity of 100 points.

If you look at the market in the medium degree you will find the daily chart swings can be sub divided down and most likely will add up to more than double at least. This means your opportunity rises to 200 points.

If you break the whole structure down into swings of MINOR DEGREE they could amount to a possible 2000 points. Now 25% of this figure is more than the total daily swings and they can be traded with a very limited risk.

So you have to ask yourself the question. Which medium offers the best opportunity for profits?

The answer of course is the INTRADAY and that is why so many traders are doing it these days when they have the benefit of computer execution and state of the art communication.

The profit potential of a small move in the intraday market is only inhibited by the number of contracts you are prepared to trade.

The average weekly range of the ES could be between 15-25 points normally. Yet the average daily range for the ES is generally around 8-12 where the market could go up and down 15 points 3 or 4 times during the week.
The additional benefit in trading the INTRADAY market is the margin system. Day trading margins can be as low as $300 per ES contract ($500 is standard) as opposed to overnight margins of $4000.

Transaction fees are cheap for most day traders who source out the right broker. This is usually under $5 a round turn for small lot traders.
On a $25,000 account you can control 20 contracts with tight stops without any difficulty. These could give you the opportunity to scalp 3 points here and there for a profit of $3000 a time.

There are professional traders doing 1500 contracts a time. 100 lot traders are common place. The volume is there for all to see.
Nevertheless the only possible chance you have with day trading and not holding positions overnight is with the PRICE ACTION METHOD.

You need to be in at the right levels and be out quickly if the position is not working. You cannot afford to fall in love with a position. This is a discipline to which if you do not pay attention, you will go broke.
Everything in life has a price. You are either up to it or you are not. I don’t make any guarantees that you will be a success just from reading my method but I do say that anyone with a little sense of gambling or speculation and who is prepared to follow rules, has the chance to be successful.

So if you make a success with the method and the tools I have made available to you, feel free to tell someone else. If not then go back to square one and contemplate on your mistakes because they will become obvious to you the more you study the market and gain an appreciation of it.

If you drop your guard and shit happens, you will pay for it one way or the other. If you overtrade on hunches, again you will pay for it in time. If you add to a losing position you will end up broke.

This business requires work and if you don’t have the time to devote to it then don’t take it on.

When all is said and done you will find a way if you are keen enough.

Chapter 2

Set yourself up properly:

There should be no excuse for losing money if you set yourself up properly to trade intelligently with all the required information at your fingertips.

I have heard all sorts of stories in the past that range from, "I will spend some money on trading tools as soon as I make some from the market".

Well you might as well just go back to where you came from if you think that is going to work.

No-one can become a professional on any level unless they invest in the right equipment and go through the necessary education every profession requires.

I have the WaveTrader III, the WT-ES assistant and the eSignal data feed for every tick the market trades through as my tool box. I wouldn't be without it for a second when I decide to place a trade.

Now as time has gone by, I have progressed from one computer 25 years ago with one screen, (when I thought I was on top of things), to seven screens in my computer network with four computers. I am a little over the top with this set up because I have other tasks I need to do. Nevertheless if you want to manage a private trading account successfully I would recommend that you first get the required equipment to do the job.

Computers: You need 2, a desktop and a laptop, or 2 powerful notebooks.
Screens: You need a minimum of 2 screens on one computer but preferably 3 or 4 on the desktop.
Broadband: You need a high speed broadband connection (preferably cable) but with a wireless router to run the connection to the second laptop (from which you will run your electronic trading platform).

From your desktop with the 4 screens you can run enough eSignal pages to monitor all aspects of the market you are trading without having to load or reload anything else throughout the trading day.

From your notebook you can keep your trading platform independent of the charts you are monitoring. Also bear in mind that if you have a power outrage your notebook will not go down as it has battery backup.

I have just bought a new system that I think works very well.

A Dell 9150 – 3.2Ghtz – 1 Gig Memory with an additional graphics card to run 4 screens. I got the additional graphics card independently of DELL.

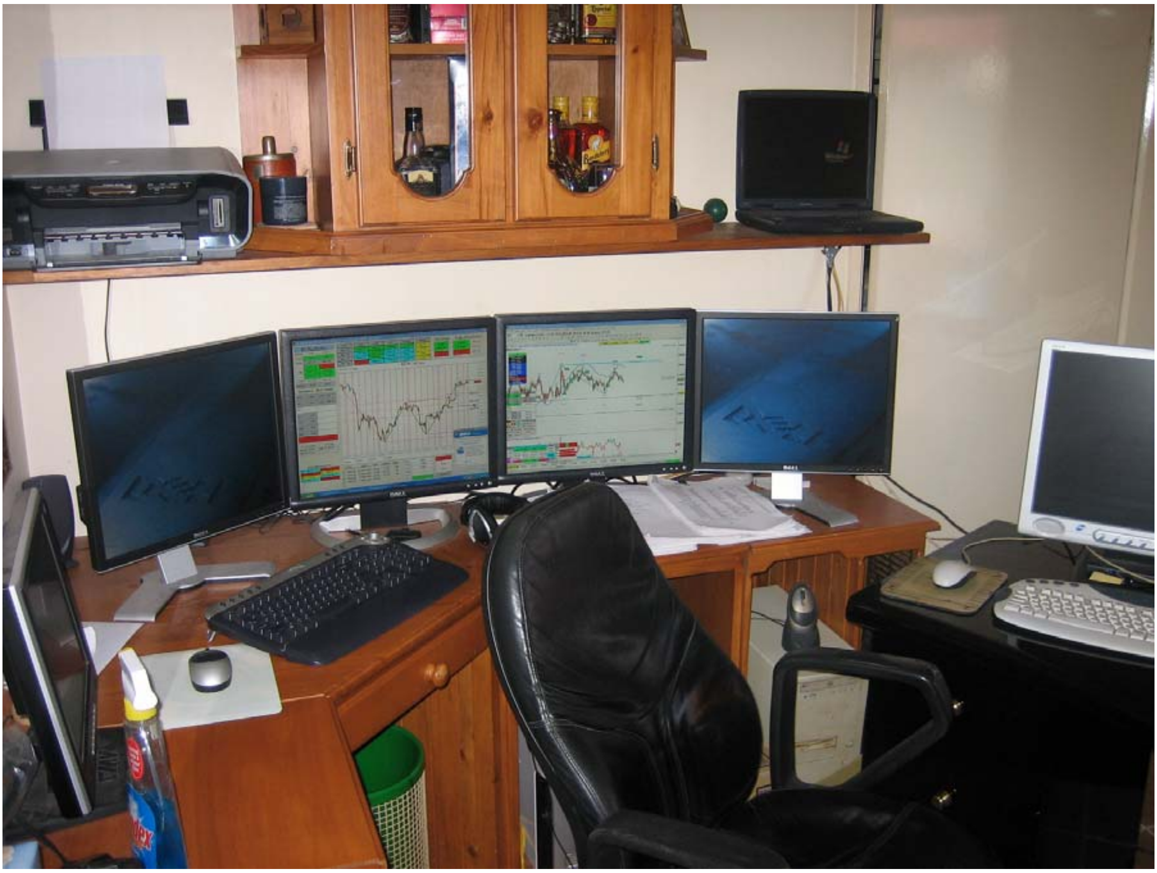
For my trading platform I am using a wireless connection notebook to my main frame on a COMPAQ Presario. The benefit is exceptional as I can take the note book anywhere and monitor the market. On a recent trip to the USA I was able to connect to the internet and monitor the market perfectly using my wireless notebook. I wasn't trading at the time but I could have should I have wanted to.

I can run my email and everything from either computer, but as I said earlier I have two other computers in my network that do all that when I am in my office.

You should make a pledge before you begin trading, to set yourself up correctly otherwise you will surely miss something vitally essential.

It's easy to make this mistake if you are uninformed and not correctly set up.

On my DELL I have screens running ES daytime futures, ES Globex futures, SPX Cash prices and OEX cash prices all in real time. I have pages set up to peruse 5 minute, 15 minute, 60 minute, daily and weekly charts, each with a click of the mouse.



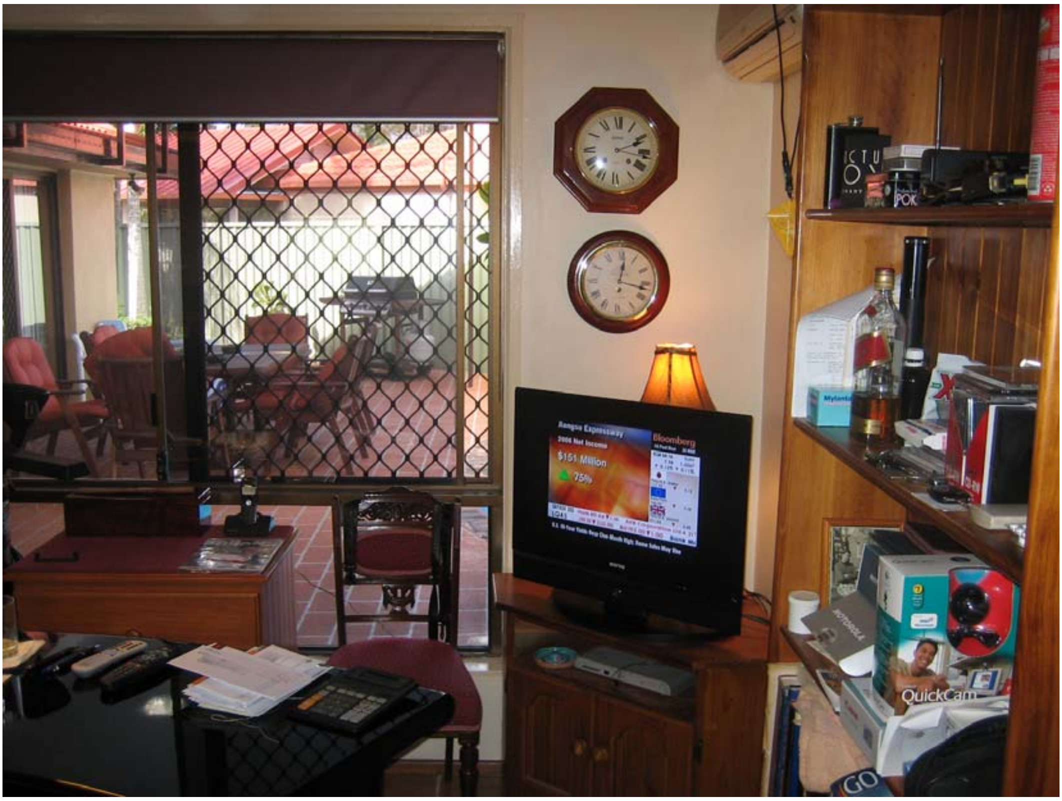
My office is not an award winning event in terms of presentation but it is very functional. The big plus is I enjoy being in it. I can sit in here for hours on end and never get to hate it. During the day I look out at my swimming pool.

Another thing you should do is buy yourself a good office chair. I bought my current chair 15 years ago for $1400 and I have never regretted it. I would hate to think of how many hours I have spent sitting on it and it is still as good as ever – just a bit of wear on the armrests. Having a good office chair is essential.

I am very attached to my semi circle desk which is a Tibor Hubay original. I was gifted with this desk 20 years ago and I will never part with it – I recently spent $800 on having it refurbished in black.

On the other side of my office I have cable TV where I can tune into BLOOMBERG mostly and anything else I require from time to time.

It all looks a bit chaotic but it works well for me. I didn’t bother to clean it up just for the purpose of taking these pictures. It is as it is; a working environment. I also have 3 clocks around my office just to keep track of the local and overseas trading times. Plus I run my computer clocks on the USA ET time so that I don’t have to think about the trading time zones.



Chapter 3

A few simple things to start with:

In the intraday market the focus of the professional trader is always on the smaller or minor degree ranges. This is because this is where they make their money. They don't make money waiting for a big bull run or a crash in the market. They make money by supplying liquidity to the longer term investors.

Longer term investors have an agenda that is completely different to a short term trader. When they buy, they may go all in or just buy progressively. Then they may try to average in by buying when the market is declining. The point is they are not very smart and because of this it means they cause some minor hiccups from time to time.

Professional traders always know where the 50% of a prior range is and the 1:1 levels of support or resistance. They also know where the 61.8 or 38.2 are as well. They are not dummies. They have been around forever. Many of them are 3rd or 4th generation traders who understand the beat to which the market marches.

They know if the market is sluggish or moving from the prior day by the activity in the Globex market from 6:00 am on.

They know where all the recent prior tops and bottoms have been resistance or support. There is no fooling them as they have all done their homework.

So with all of this in mind, you have to be able to work out from the daily mood if they will buy supports and sell resistances. Or will they punt that the market will break into new ground from the day before? It becomes a bit of a poker game at the beginning of the day because you have all the other imbeciles jumping in one way or the other doing whatever their systems tell them to do.

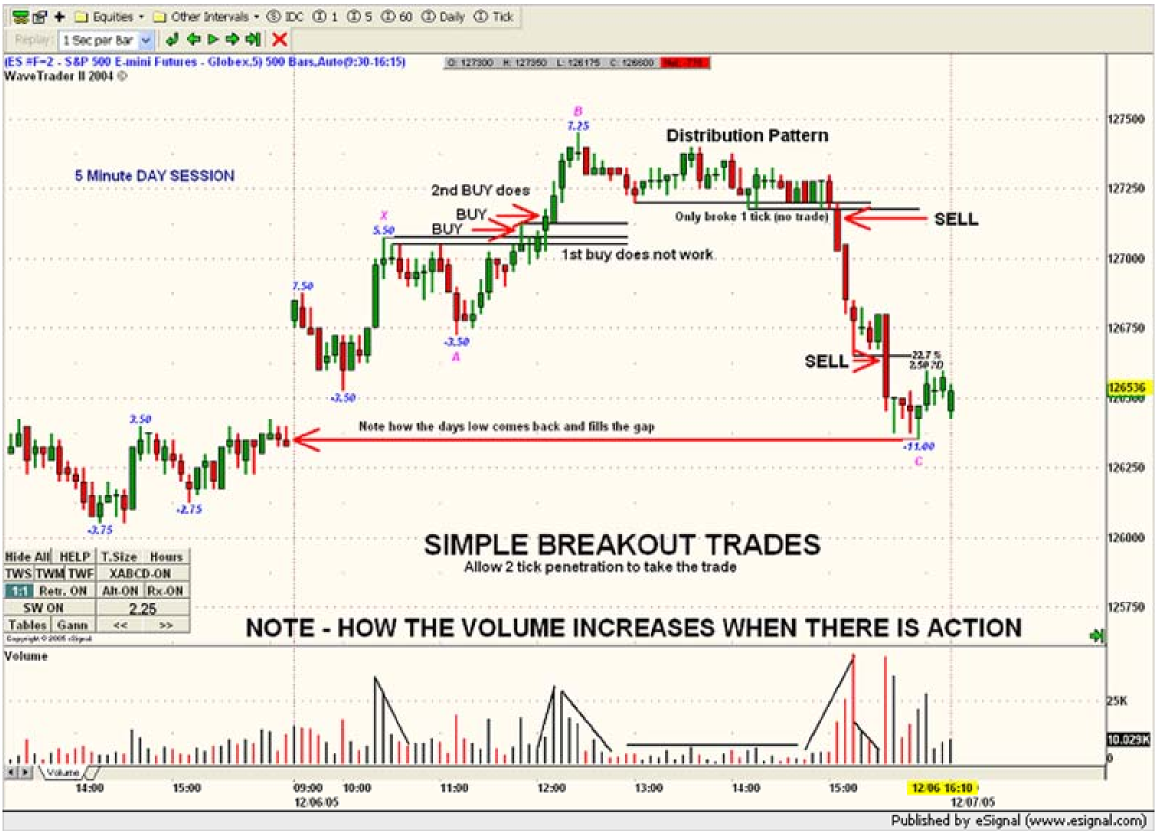
The best way to get an idea of the potential mood for the day is to listen to Bloomberg TV channel. There is enough said in the various discussions to give you an idea of what is going to be considered important on any given trading day. Look to Bloomberg for interviews with the locals as they eat and sleep this business on a day to day basis. More often than not they will have the right idea going into the early part of the trading day.

There are numerous reports released between 8:30am ET and 10:00am ET. Most days they generally exert some influence on trader's actions. You must be aware of these reports and the markets reception to them.

As new reports are released you will see from the price action the trader’s view of them.
Speculators are always looking for an edge so a new report gives them a chance to hit the market one way or the other to see if they can get it moving from where it is and scare the other side out of their positions.

All it generally takes to shake shorts out is for the price to break through a prior swing high level where they will place their stop loss orders.

The same applies with the longs. They will move stops up when the market is going up and sit them just below any significant swing low along the way.



Just look at this 5 minute chart of one days trading and observe the following:-

1. The day session opened with a gap up from yesterdays close – means there was an upward trend in the Globex – the market attempted to sell off into 10:00am (presumably attempting to fill the gap).
2. A rally begins after 10:00am and lasts 25 minutes, after several attempts to break out fail, it attracts sellers who manage to get it back down 3.50 and 61.8 of the previous leg up.

3. A rally begins at 11:00am and reaches a new high of 1274.50 at 12:25pm. The previous highest high 9 days ago was 1273 and the failure to move much above it provided the bears and the bulls with a message.
4. After 2 ½ hours sideways in a distribution pattern the market penetrated the lower levels and started to feed off the resident stops placed there.
5. By late afternoon the ES had retreated back to the close of the prior day and filled the GAP from the morning opening.

All you had to do to make money on this day was to be there to put the SELL order on. It was more than obvious what would happen sooner or later when the price action hit the stops.

A day like this is a bonus day for day traders but as far as the investors were concerned it was a non event.

THE OPENING PRICE FOR THE DAY:

One of the first things I want you to learn from me is the importance of the opening price in the DAY SESSION.

As a general rule the opening price for the day will either be the high or low for the day (within a point [4 ticks]) at least 50% of the time.

So what you have to remember is that whilst the market is above the opening price level of the day, it is potentially going up.

If the price action is below the opening price the market is potentially going down.

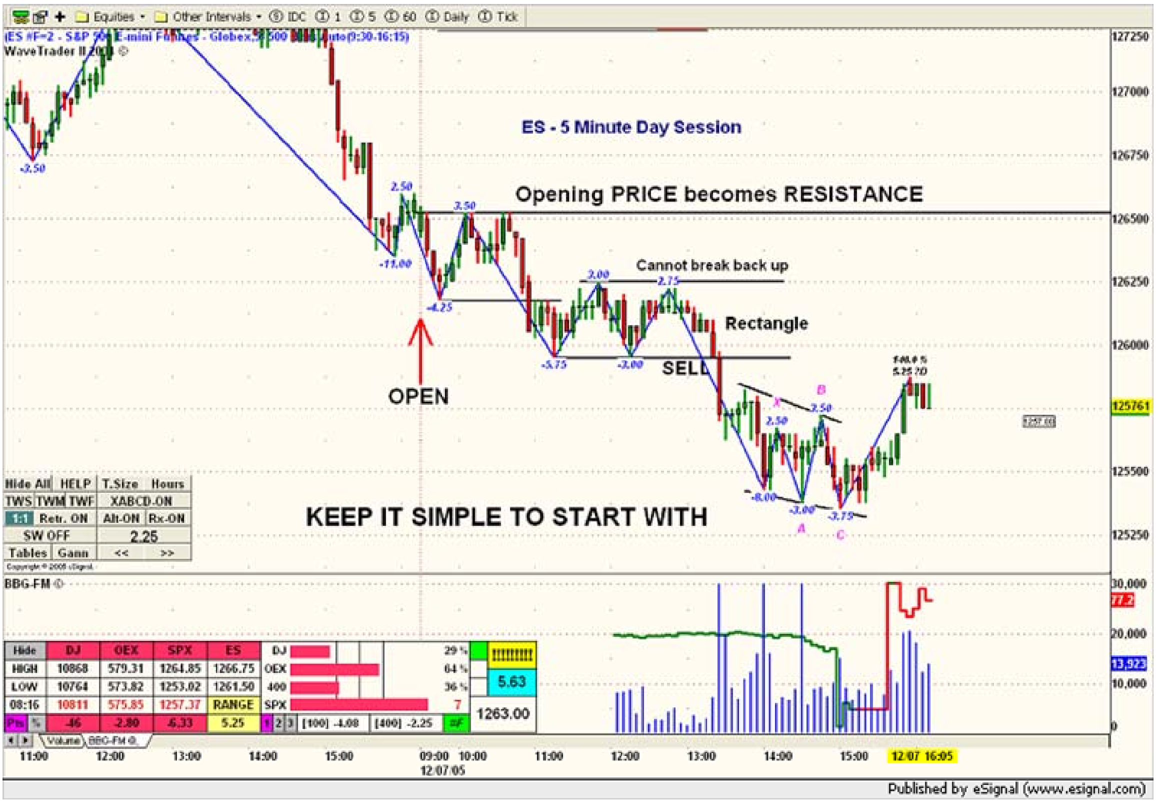
I usually draw a line across my charts just after the market opens the day session so I can visually see where the market is in relationship to the open.

If the price action goes below the open I adopt a negative stance, if the market goes above the open I adopt a positive stance.

This approach is very simple but it is also very effective as an indicator to have you thinking in the right direction.

What you need to understand about the opening price is that a lot of volume will be generated in the first 15-30 minutes of the market opening based on the price action during this period.

For every new position there will be an equal amount in the opposite direction. Someone has to be wrong, so what tends to happen is that if the market was for instance going down after the open, and reverses back up through the open, the traders who are short will reverse position. If the price action continued to go down the buyers will quit (by selling) and force the price to go lower. It's pretty simple stuff but very effective. On an UP day from the opening the same thing may happen in reverse.



Hide	DJ	OEX	SPX	ES
HIGH	10868	579.31	1264.85	1266.75
LOW	10764	573.82	1253.02	1261.50
08:16	10811	575.85	1257.37	RANGE
Pts %	-46	-2.80	-6.33	5.25

DJ 29 %
OEX 64 %
400 36 %
SPX 7
[100] -4.08 [400] -2.25
5.63
1263.00

If you start off with the attitude that you will keep it simple and not try and reinvent the wheel, things will become obvious to you if you are patient enough to wait for the simple set ups.

I am going to teach you all the finer points of trading in the chapters ahead but first I need to give you the basic and simple means to keep you in the market and stay watching the market as it goes through its processes each day.

Experience with the market in terms of hours spent watching is invaluable.

I am convinced that if I explain all this to you in a manner that allows you to move above the novice level, everything will be easy to understand. As you get more experience with my methods and techniques of placing orders, then you will be able to make a success of it.

For now, the things I am showing you will occur on a regular basis so you already have a means to take a few trades. As you continue to learn more about how the market structure unfolds, you can and will improve.

Take it one step at a time and one day at a time. Each day after the market closes go back over it and see what it did. Ask yourself the question, “was this or that obvious to other traders?” This is the crux of the matter - do other traders recognize the same opportunities that you are seeing? If you think they do, take the trade.

GAP OPENINGS:

Quite often the ES will open with a gap between the new days open and the previous days close. Any day that you get a gap you should take into account that traders believe that gaps have to be filled. They can be filled at the beginning of the day or sometimes towards the end of the day. The point to remember is that when the market is closing in to fill a gap, the shorter term traders will view the gap fill as a target point to exit profitable positions. There will also be another group who will enter trades in the opposite direction for a reversal at the precise level the gap is filled.

Gaps create additional trading opportunity by their very nature.

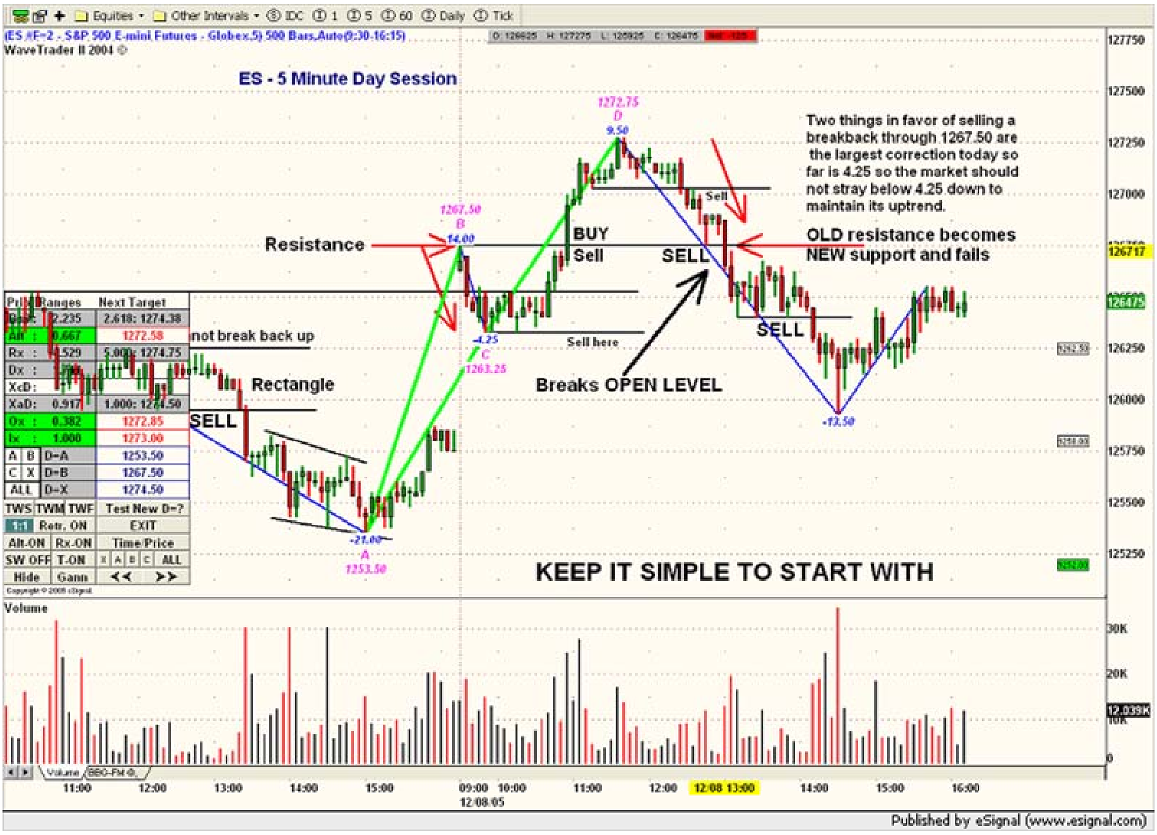
OLD RESISTANCE BECOMES NEW SUPPORT & OLD SUPPORT BECOMES NEW RESISTANCE:

The next thing you need to learn from me is the way traders think about previous highs and lows in the market.

The market moves between implied support and resistance levels relatively freely but when it breaks old supports or old resistance levels, it attracts new buying and selling orders that will propel it further towards the direction in which it is heading.

This next chart I am showing you has some simple truths in it to take note of.

At the beginning of the day the first high was 1267.50. From there it went backwards 4.25 and then rallied to a high of 1272.75 (high for the day). The 1267.50 was theoretically the new support in the MINOR degree and it was also within the opening price range. If you look closely you will see the little bounce it made when it came back to 1267.50 the first time. Nevertheless it didn’t gain much following and the traders who could have still been long from the earlier breakout would have had stops on their positions below it.



Two things in favor of selling a breakback through 1267.50 are the largest correction today so far is 4.25 so the market should not stray below 4.25 down to maintain its uptrend.

The other point to note is that the largest correction from the 1253.50 prior days low to todays 1272.75 high was 4.25 and a 4.25 1:1 off the high would expect support at 1268.50, so the market should not have broken below 1268.50 if the uptrend was to remain in force. As it was when the market returned to the 1267.50 level it was already in a weak position technically.

So by breaking back below 1267.50, the price action attracted a lot of sellers and consequently generated a profitable trade.

SOMETHING ELSE TO KEEP IN MIND:

This is by no means an infallible rule but many professional traders believe, and statistics back it up, that the high or low for the day in stock market futures will occur within the 1st or last hour of the trading day more than 50% of the time.

If the market moves up from the opening price and is still going higher after the 1st hour, then the potential is for it to keep working upwards until it encounters some major resistance or until the last hour of trading.

If the market moves down from the open and continues to move down after the 1st hour of the trading day, it will continue progressively down until it encounters some major support or until the last hour of trading.

So if you are aware of the trader's beliefs it will make a lot more sense to you when the market makes a strong reversal at 3:00pm or later on a strong day that has been either up or down. This is especially when you think about the fact that on some days, traders could be in a very profitable position and they may be looking to book it before the trading day ends.

I believe that knowing this gives you an unfair advantage over the not so knowledgeable players on the other side of your position. Because of this, you can raise your expectation of success.

We can all start out with a 50-50 expectation for getting the direction of the market right. Nevertheless the important factor is to know where you should enter a new position and if you can say to yourself that if my new position goes against me by 6 ticks I am wrong. Sometimes it only has to go 3 ticks against you to get you thinking that you could be wrong. And if you get that feeling it is better to exit your position immediately.

DAILY PATTERNS:

On a day to day basis the market can form several distinct patterns in terms of its SWING characteristics.

1. The market can be distinctly UP or DOWN all day from the opening bell. Days like this are generally fueled by some news that has hit the market by surprise early in the day and once the ball starts rolling it is difficult for the opposite side to stop it.
2. The market day can take on the form of a V or an inverted vee with two distinct trends either up and down or down and up. Usually when these days occur it is because the market hits some LARGER degree SUPPORT or RESISTANCE level at some point during the day and it attracts the longer term players into play.
3. The next one is the N or inverted N day where the market SWINGS have 3 distinct legs from the opening bell to the close.
4. The last one is when the market SWINGS for the day take on the form of a W or M pattern.

What you need to take into account is that a V day will normally be followed by an UP or DOWN day in the form of a continuation.

Seldom will you get more than 2 UP or DOWN days in a row and you can expect them to be followed by a W, M or N type day.

You can generally expect to have 2 or more W or M days a week.

MAJOR REPORT DAYS:

Once in a while the market will be focused on some upcoming report that will influence large investment houses to become either buyers or sellers of the physical stocks. You need to always be aware of these days ahead of time as they can have a distinct influence on the stock market indices leading up to them and also a profound influence once the reports are released.

Over the years the FOMC meeting days where the FED releases changes in policy to the discount interest rate have proven to be very interesting days.

Q1, Q2, Q3 and Q4 profit reporting periods:

These will generally last for about a month at a time at the end of each period. Nevertheless there will be days when the largest companies are reporting and the result of their reports can have a profound effect on buyers and sellers at the time.

NEWS IN GENERAL:

Markets thrive on news in general and if there is no news the markets usually are quite docile. When there is a lot of good news you can generally expect the market to go up until it reaches an overbought condition. And when the news is not so good you can expect it to go down until it reaches an oversold condition.

My daily approach:

Basically I treat each new day as a one off – it is not my policy to forecast what I think the market will do until I have seen the way it opens and starts trading in the first hour.

I begin the day from the open with all my medium degree SUPPORT & RESISTANCE levels marked on my chart. These I call MOB’s (make or break levels). Once the market is trading you will see by its ability to break these levels how strong or weak it maybe.

As the day goes on the market will develop a rhythm so to speak and opportunities will present themselves. It is just a matter of being there at the time to take advantage of them. When the market is going nowhere in tight ranges I just stand clear of it until it develops some energy to go some place in a hurry.

As we move along from here I will show you how to read the market direction from a technical stand point.

There will be trades that are possible every inch of the way.

Nevertheless you will need to filter various other aspects of the price flow to take full advantage of the up coming opportunities.

As we move along from day to day we have to keep check on the TECHNICAL INDICATORS that the medium to longer term participants use to make their trading decisions.

We need to do this so we know when to expect an interruption to the MINOR degree flow of the intraday traders.

For instance the market could be approaching a 38.2, 50 or 61.8 of a major range and that will mean something to the longer term players.

It might also be coming into a 1:1 of a much larger degree that we are not accustomed to looking at.

Whichever is the case, we need to be aware of it in advance because if the market reverses on a LARGER DEGREE technical level, it tells us that INVESTOR PARTICIPATION is there. If the market breaks through the LARGER DEGREE technical levels, it tells us the state of the buyers versus sellers. We always need to know if the market is trading technically or if it's on a surge and not taking any notice of the technical signals.

Whatever the market does, we have a way to trade it if we can understand the basic motivation and why it is doing what it is.

You must always ask yourself – who is in control here, technical or mass panic? When the panic is on the market will break every technical level in front of it until it exhausts.

The beauty of knowing these things is you can see by the price action where the state of the market is.

If the market is technical, you trade the technical levels. If it is in a panic mode you trade the panic. It will always go from one to the other and trap a lot of the players.

So understand what you are dealing with if you want to make A grade as a trader.

I don't care what the market does these days. All I do is work out what it has to do to trap the most people around the wrong way. That's my approach and it works better than anything else.

Chapter 4

How to stay on the right side of the market:

Before we proceed further there are a few other things you need to know about markets.

To WIN at trading you have to view market price action on levels that reflect the MINOR – MEDIUM and MAJOR degree. This approach is in tune with the principles of Elliott Wave teachings and also Gann methodology to market analysis. Elliott Wave basically teaches us that market movements have binding structures that unfold in 3 to 5 wave sections, where each section will relate mathematically to the past sections.

It is possible to break market swings into smaller, small, MINOR, MEDIUM, larger and MAJOR.

Now the point is that markets move in swings up and down, and as they go they are said to IMPULSE or CONTRACT as the trader moods constantly change from good to better or from good to not so good. In down markets moods change between bad and getting worse to not so bad and maybe things are getting better. The MAJOR degree is either good or not good. And so goes the fate of the market as you move down in each swing degree.

It is your job to determine what the market has to do to tell you if we are moving from one swing degree of good to better or not so good, or from one swing degree of bad to worse or maybe better now.

So if you analyze the market PRICE ACTION and swing degree from weekly back to 5 minute you should get the right answers about the most probably direction the market is about to take in the next trading session. If you follow my rules for defining swing degree the market should guide you along and meet all your expectations. The main objective is to trade with the current swing flow until the market confirms any change.

Double bottoms in an uptrend can be considered higher lows. Double tops in a downtrend can be considered lower highs.

If the market makes lower highs or lower lows by breaking below or above prior pivot points by anything outside of a false break the situation must be taken on board for what it represents by my rule book.

The following concept is non-negotiable if you want to trade by my rules.

CAVEAT 1:
The TREND is UP in each degree when the market is making higher highs and higher lows and the indicators remain steadily overbought.
The TREND is DOWN in each degree when the market is making lower highs and lower lows and the indicators remain steadily oversold.

CAVEAT 2:
The TREND is UP in each SWING degree as long as the corrections in that degree do not exceed the prior corrections of that degree in amplitude (points lost) on a continuation basis.
The TREND is DOWN in each SWING degree as long as corrections upwards in that degree do not exceed prior corrections of that degree in amplitude on a continuation basis.

CAVEAT 3:
Now this is a little more complex. It has to do with the OEX and the SPX.

The top 100 stocks in the SPX 500 stocks also have their own index known as the OEX. These 100 Blue Chips represent 60% of the total SPX content.

The other 400 stocks in the SPX only account for 40% of the total value of the 500 stocks in the SPX as they are well less capitalized.

The OEX stocks therefore have a 3:2 influence over where the SPX and the ES go at anytime. Simply because the ES will never trade in day time sessions far outside its premium or discount borders based on fair value to cash. If it does and the cash SPX is not confirming the arbitrage computer programs will buy and sell stocks and futures at the same time to bring everything back into line.

So it is very important to monitor the OEX for its relative technical position to confirm your thoughts about the directional possibilities for the ES and the SPX.

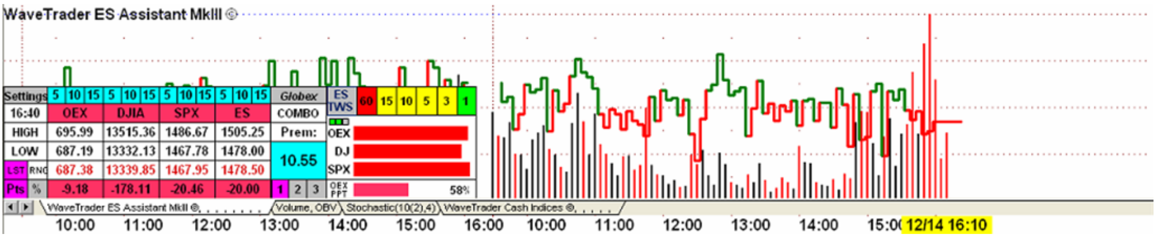
The main point to learn is that when the OEX and the SPX are both strong in the same direction the SPX and the ES will move faster in that direction.

When the OEX is slow moving the SPX and ES will also move a lot slower.

Also you need to remember that the 500 stocks in the SPX can also be segregated into SECTORS of interest. Fund managers have sector trading programs and can rotate from sector to sector as they see better value elsewhere.

In times of stress money will rotate from lesser capitalized stocks into the “blue chips” sector.

The basic approach I take to the market each day is to calculate the MOB levels (Make or Break) for the OEX, SPX and ES. Then once the cash markets are trading follow the strength or weakness in the OEX and compare it to the performance of the SPX.



Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
16:40	OEX	DJIA	SPX	ES	COMBO
HIGH	695.99	13515.36	1486.67	1505.25	Prem:
LOW	687.19	13332.13	1467.78	1478.00	10.55
LST RNG	687.38	13339.85	1467.95	1478.50	
Pts %	-9.18	-178.11	-20.46	-20.00	1 2 3

WaveTrader ES Assistant MkIII ©
ES TWS
60
15
10
5
3
1
OEX
DJ
SPX
OEX PPT
58%
WaveTrader ES Assistant MkII ©, ...
Volume, OBV
Stochastic(10(2),4)
WaveTrader Cash Indices ©, ...
10:00
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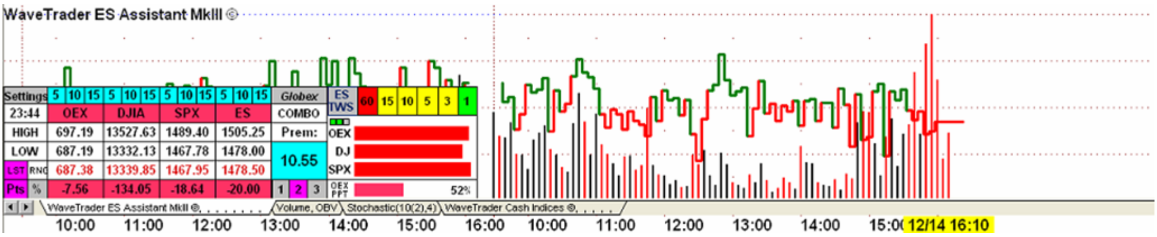
12/14 16:10

This snapshot of my WT Assistant was taken at the end of the trading day. In the bottom right corner you will see an OEX PPT gauge indicating a 58% reading. This means that the OEX stocks generated 58% of the total move today in the SPX. Basically this is what they should have done and demonstrates an orderly across the board weighting to the movement in the SPX.



Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
23:44	OEX	DJIA	SPX	ES	COMBO
HIGH	697.19	13527.63	1489.40	1505.25	Prem:
LOW	687.19	13332.13	1467.78	1478.00	10.55
LST RNG	687.38	13339.85	1467.95	1478.50	
Pts %	-7.56	-134.05	-18.64	-20.00	1 2 3

WaveTrader ES Assistant MkIII ©
ES TWS
60
15
10
5
3
1
OEX
DJ
SPX
OEX PPT
52%
WaveTrader ES Assistant MkII ©, ...
Volume, OBV
Stochastic(10(2),4)
WaveTrader Cash Indices ©, ...
10:00
11:00
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13:00
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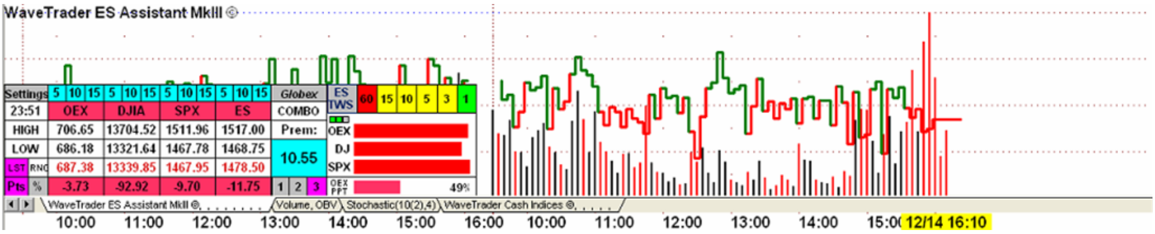
This next shot shows the OEX PPT over a two day period at 52% which indicates the OEX had less participation in the SPX losses and not up to the full weighting you would expect from this index if the down trend was being driven by the OEX.



Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
23:51	OEX	DJIA	SPX	ES	COMBO
HIGH	706.65	13704.52	1511.96	1517.00	Prem:
LOW	686.18	13321.64	1467.78	1468.75	10.55
LST RNG	687.38	13339.85	1467.95	1478.50	
Pts %	-3.73	-92.92	-9.70	-11.75	1 2 3

WaveTrader ES Assistant MkIII ©
ES TWS
60
15
10
5
3
1
OEX
DJ
SPX
OEX PPT
49%
WaveTrader ES Assistant MkII ©, ...
Volume, OBV
Stochastic(10(2),4)
WaveTrader Cash Indices ©, ...
10:00
11:00
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This third shot shows the overall losses for 3 days and the OEX PPT for the period at 49% indicating an under performance in the downtrend by the OEX.

It could also indicate that as the market has been falling there has been a small rotation going on between broader market stocks and back into "blue chips"; which has had the effect of lessening the force of the decline in the overall SPX and ES over these past 3 days. It also tells us that that the present decline is not life threatening to the bull department at this stage.

What you will learn is the best directional moves come when the OEX has a high PPT in the SPX direction. So it is important for you to monitor the OEX to get a clearer picture of things as the new trading day unfolds. When the OEX is participating at over 70% or more of the SPX direction it gives you the opportunity load up some extra contracts.

Some traders follow the total number of stocks UP DOWN or UNCHANGED as an indicator of the market internals but I don't concern myself with that as it is trivia in my book.

When the market is going up you should expect the "blue chips" to lead. When they cease to lead it means they are assumed to be at full value and this alerts you to the possibility of a correction or sideways market activity ahead.

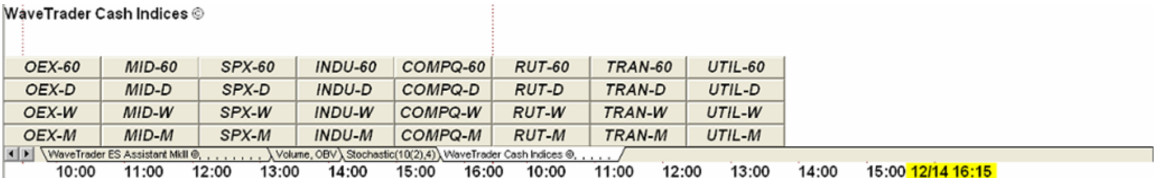
The reason for this may not be obvious to new comer's but there is always a rotation process going on in physical stocks amongst fund managers, but when they come out buying without any rotation in mind the trend is going to be much more dramatic.

Of course the same situation also applies when the market is going down. If the "blue chips" are over participating it means they are being sold off to raise cash, maybe for redemptions if the downtrend has developed into anything serious.

Usually when investment managers are rotating from one sector to another they cause the market to become a little stagnant when moving from blue chips to broad market stocks. Or they can cause the market to be buoyant if they move from the broad market stocks into blue chips.

Generally in bearish trends the investment managers will move from lower cap stocks into blue chips for protection. At the end of a bearish trend they will move more money into lower caps as these will have generally suffered more and will offer greater potential value.

You can work out when they are doing it because the charts will tell you.



OEX-60	MID-60	SPX-60	INDU-60	COMPQ-60	RUT-60	TRAN-60	UTIL-60
OEX-D	MID-D	SPX-D	INDU-D	COMPQ-D	RUT-D	TRAN-D	UTIL-D
OEX-W	MID-W	SPX-W	INDU-W	COMPQ-W	RUT-W	TRAN-W	UTIL-W
OEX-M	MID-M	SPX-M	INDU-M	COMPQ-M	RUT-M	TRAN-M	UTIL-M

As part of my analysis arsenal I have instant access to the following tickers in 60 minute, daily, weekly and monthly. The MID and the RUSSELL generally give you a good idea of how the mid caps in the market are performing.

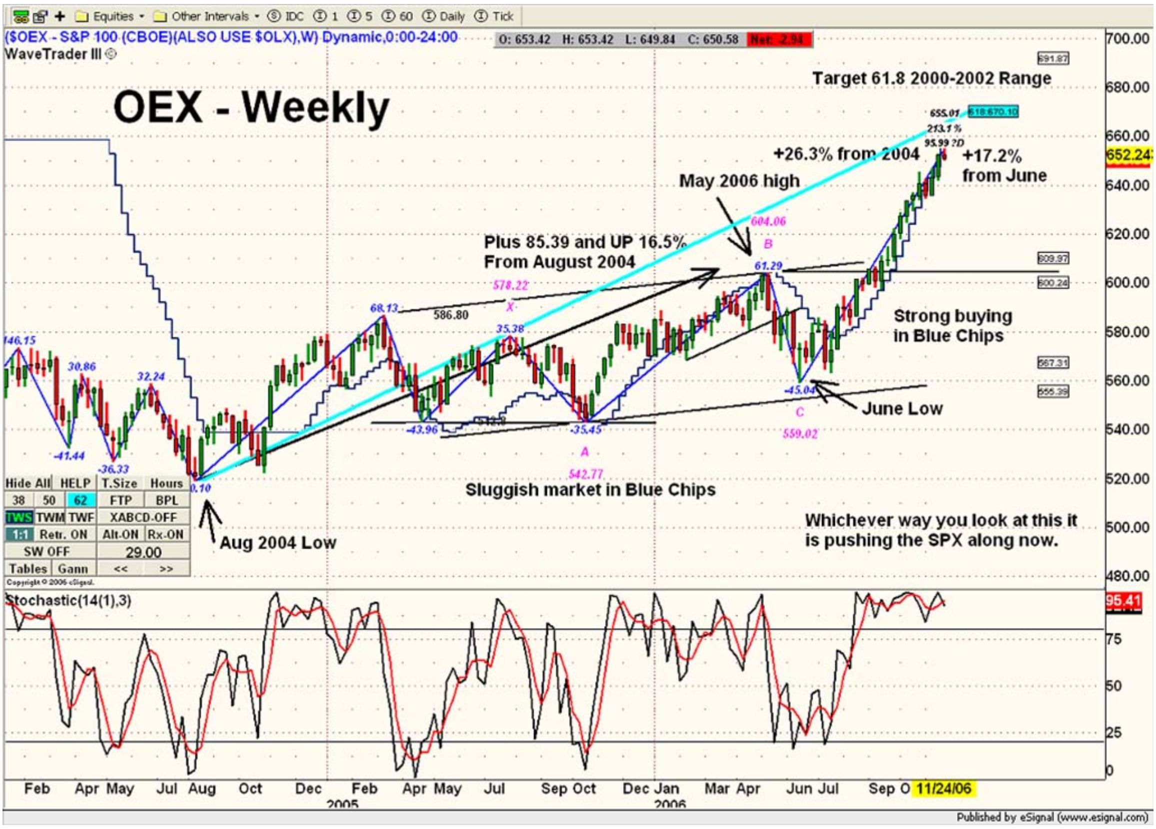
THE REAL ISSUES of Caveat 3 are:

The trend in the OEX versus the SPX is extremely important and I can tell you very simply if you want to stay on the right side of the ES futures market it is so important for you to listen to what I am saying.

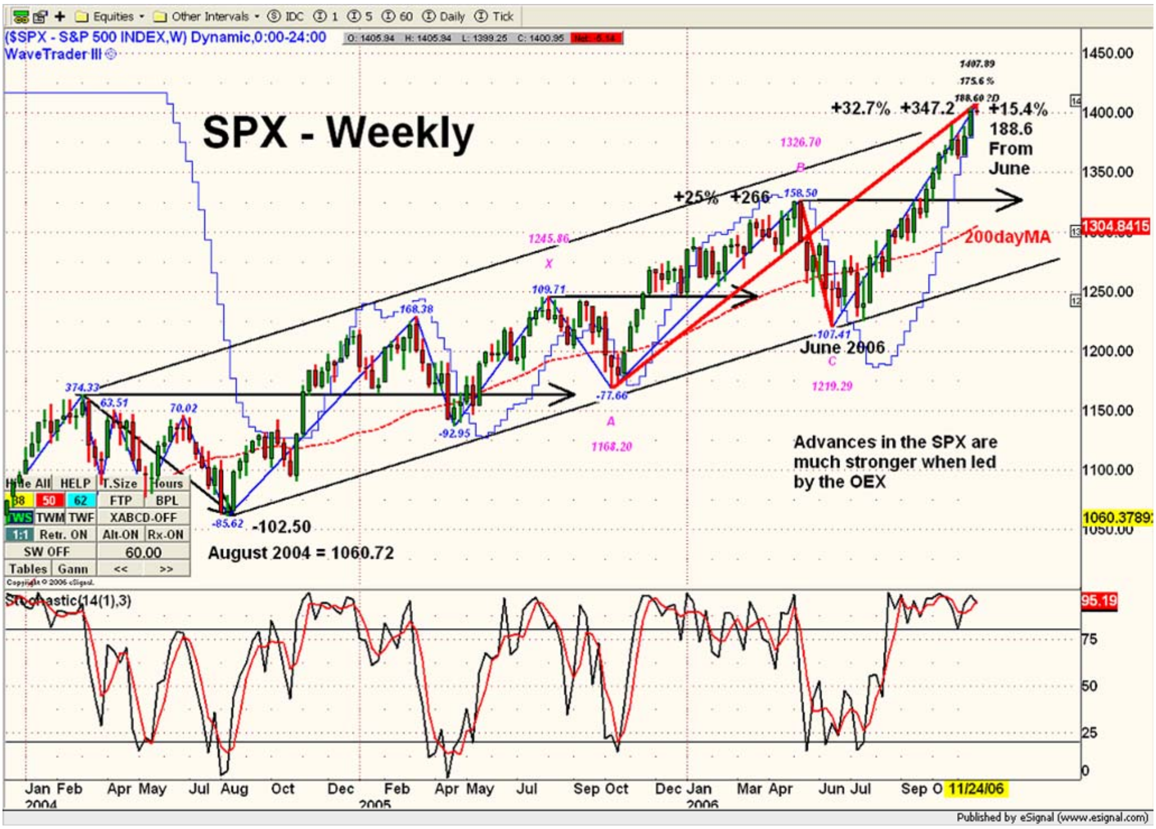
I can give you a lot of examples and you will know why, but it is better for you to do some work for yourself and then you will get the idea; if the high end of the market is moving in the same direction as the low end the market is broad based in its direction. If it isn't there is a lot of rotation between sectors.

The implication of course is that the market perceives one side or the other is reaching overvaluations or under valuations and you will begin to see adjustments to portfolios when the fund managers identify the situation.

For the moment I am going to show you a period where the OEX stands out as the leader after the SPX made a severe pull back and then rallied to new yearly highs. You can never underestimate the power of the "blue chips".



The price move in the OEX was much stronger after the breakout of the May 2006 highs as the OEX was the leader and the broader market was less attractive to investors after it had had larger overall gains into May 2006.



Now if you peruse these last 2 charts you will see the improved performance in the SPX when the OEX is moving strongly, meaning rotation to “blue chips”.

A 1 point move in the OEX adds or subtracts approximately 1.4 points to the SPX index.

The things I will teach you about PRICE ACTION in the market will never change, they will endure forever in time.

The first thing you need to learn about the markets in general is the levels traders consider to be IMPLIED RESISTANCE & IMPLIED SUPPORT as it moves along its natural path guided by outside influences and the actions of the buyers and sellers.

We will address these in the following chapters.

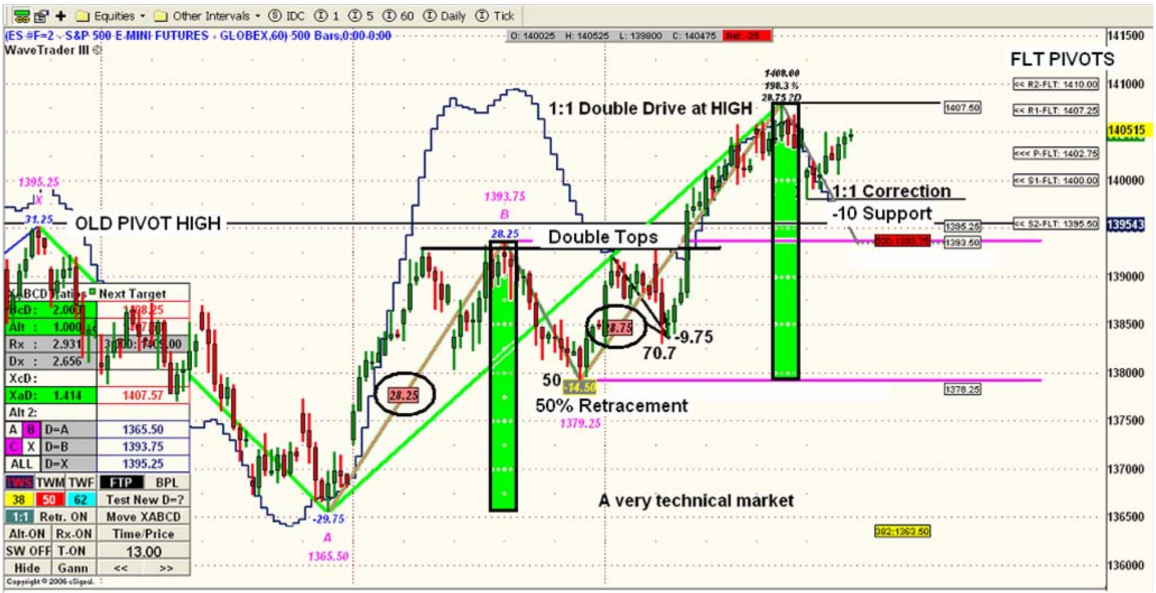
Gann’s famous statement was, “there is nothing new under the Sun”. I believe it and I am sure I can convince you to believe it, especially when it comes to market behavior.

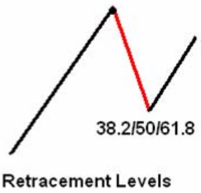
Chapter 5

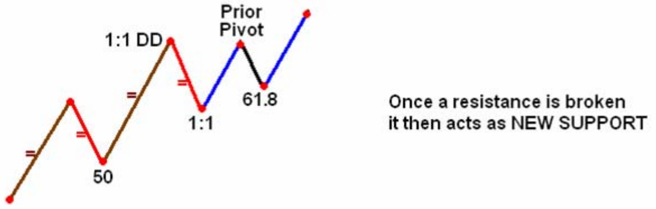
IMPLIED MARKET RESISTANCE LEVELS:

Market resistance is a term given to levels above the market price that traders will recognize as restrictive to its upward progress. They will place profit taking orders at these levels and in many instances sellers will place new orders to go net short at them. The outcome of this is to either cause the market to reverse direction for a correction or make a complete reversal in the short term trend. The first confirmation of a reversal comes when the market corrects greater than a prior correction in the MEDIUM DEGREE.

1. Double tops.
2. Prior swing pivot levels.
3. Retracement levels of previous ranges in divisions of 38.2, 50 and 61.8
4. 1:1 Double Drives.
5. 1:1 upward corrections in a downtrend.
6. Daily Floor Trader Pivot Levels.







We can start off with the easy ones first but when two or more of these things line up at the same level it will be more obvious to the smart money traders.

In cases where the market breaks up through these implied resistance levels it is demonstrating strength and will most likely move on upwards to the next implied resistance level before encountering technical selling.

When you have a market moving upwards with no obvious pivot level resistance ahead of it you use the 1:1 Double drive rule to calculate future targets for resistance. You start with the smaller degree and work on up to the MAJOR degree. Medium degree will be stronger resistance than small or smaller degree. In the S&P you usually find the MEDIUM degree 1:1 DD is very reliable as a trading level because if you short and it does not work, then any break through confirms the uptrend and gives you the opportunity to buy again for more upside.

In an up moving market quite often the intraday high will form on a double top, a false break double top or a 1:1 double drive top. And this level could also fall on a Floor Trader Pivot level or within 1 or 2 ticks of one. Floor trader's pivot levels are calculations based on the previous days trading range. On most days the market will contain itself between S1 and R1 or maybe extend to the S2 or R2. Once the market gets above R2 it will most likely keep going for the rest of the day.

WHEN YOU CAN IDENTIFY A SIGNIFICANT RESISTANCE LEVEL THAT WARRANTS A REVERSAL AT THE TIME:

The market may not go into a retreat immediately, it may correct a little and come back to test the high level and then begin to fall away. Nevertheless at least 50% of the time you will get a second chance to sell on the smaller degree geometry as the smaller swings will retrace 50/61.8/66.7 after the fate becomes clearer to the smart players, these movements may be up to 3 to 5 points down followed by 2-3 points up and then the selling becomes obvious. That is when you get a better opportunity to sell into the market.

If you miss the small retracement you will always have a 3rd chance to sell the break out of the 1st correction low if the market confirms it has made an important high for the day.

There are a few other things that will aid you at the time and I will show you what they are as we move forward. The point right now is to get you thinking on the right wave length as you will have to evaluate every contingency as the market unfolds. As you move forward I will be talking about volume indicators and trend indicators and how to combine them into your trading plan. These things deserve talking about in their own context so just remember that you must take them into account when the time to trade comes.

Just remember there won't be anyone else there to push your buy and sell orders into your computer. You will have to do it yourself unless you team up with a sidekick and one of you work the trading platform and the other or both of you analyze what is going on together. This can be a very good idea as two heads are always better than one (if you are on the same wave length).

COMPLEX IMPLIED RESISTANCE LEVELS:

These can form in ESOTERIC GEOMETRIC relationships based on ELLIOTT WAVE THEORY. Normally to hold some weight you need to have the past 3 or 4 swings forming a recognizable pattern in geometric terms. The best way to understand the situations that occur is to review the swings in levels of similar degree.

The possible combinations are numerous and as I have previously written several chapters on these situations in my Trading to WIN course, I will include those chapters in this text towards the end for additional study.
For now it is better to stick to the simplistic methodologies that more traders will recognize easily.

On a day to day basis it is better to keep things simple and leave the other stuff for the occasions that warrant their use. Nevertheless you can see from the chart example that the wave structure in my example on page 31, at the high 1408 related in three different geometric ways.

CD=AB (1:1 DD), CD= 2.00 BC (which at the time was a 50% retrace), AD = 1.414 XA – this is harmonic geometry in the Large degree sequence (based on the square), This is more of a Gann thing than an Elliott interpretation.

Now I do not know why these things occur this way but they do! I have explored the reasons why but outside of Robert Lawler one time telling me I was on the verge of the occult and I should be careful I haven't got a clue. But happen they do and as long as they continue to do so we can all take advantage of them. I am not religious and I am not a crank, I believe in what I see and that is all. Point is the more I see it happen the more I believe in it.

If you want to trade my method you will have to adopt the same attitude. Because sometimes things come together that look guilt edged and within a short time they just fly out the window. When they do it is not a problem with my approach as I always remain flexible and if something does not work I always know I can reverse and run with the flow.

The point is I do not make forecasts that convince my mind that I know exactly what will happen, I just take the obvious signals to trade and if they don't work I get out or reverse back the other way; but I do it very quickly.

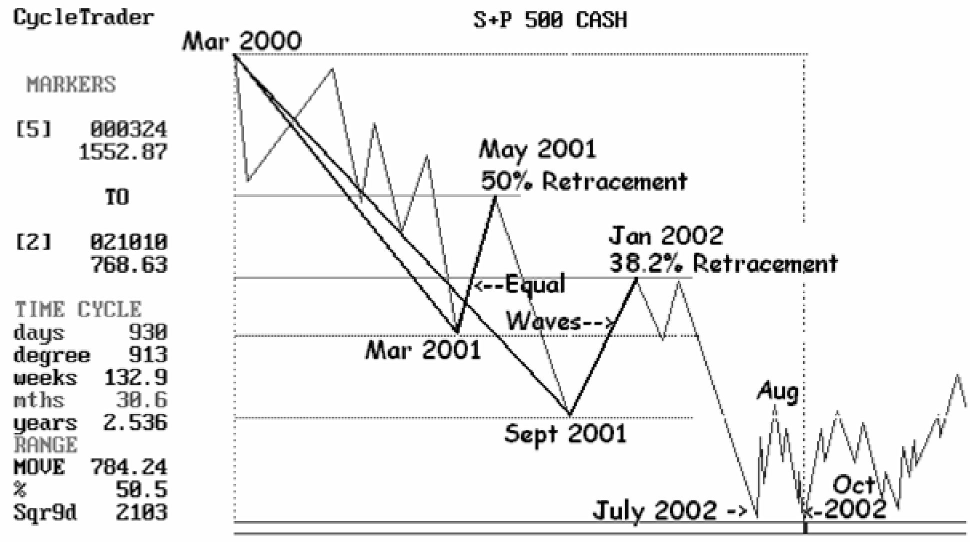
SOME OTHER POINTS TO REMEMBER:

When a market is in a declining trend it should not retrace more than 50% and at the most 61.8% of the smaller degree swing ranges. If it does the likelihood is that a range bound situation will be forming.

In a MEDIUM degree down trend a correction in the latter stages of development should not retrace more than 38.2% of the most recent medium degree swings that have been in progress for a few days. If the market reverses back down off a 38.2 MEDIUM degree correction it is more than likely it will go to new lows in the unfolding trend. More than likely the 38.2 resistance reversal will set the market up for one more down swing.

This approach can also be applied to the higher degree swing series all the way up to MAJOR swings.

I will have to retrieve a chart of the S&P 500 – SPX, to show you some significant geometry that occurred in the MAJOR SWINGS on the decline from 2000-2002. From the high there was a 50% retrace before another decline that way exceeded the previous low. From there it made a MAJOR degree 38.2 retrace of everything down from the 2000 high, the 38.2 stopped the market going any higher in early 2002 and then the SPX continued to go down lower into the latter part of 2002 before the bear market made a base to begin a new cycle upwards.



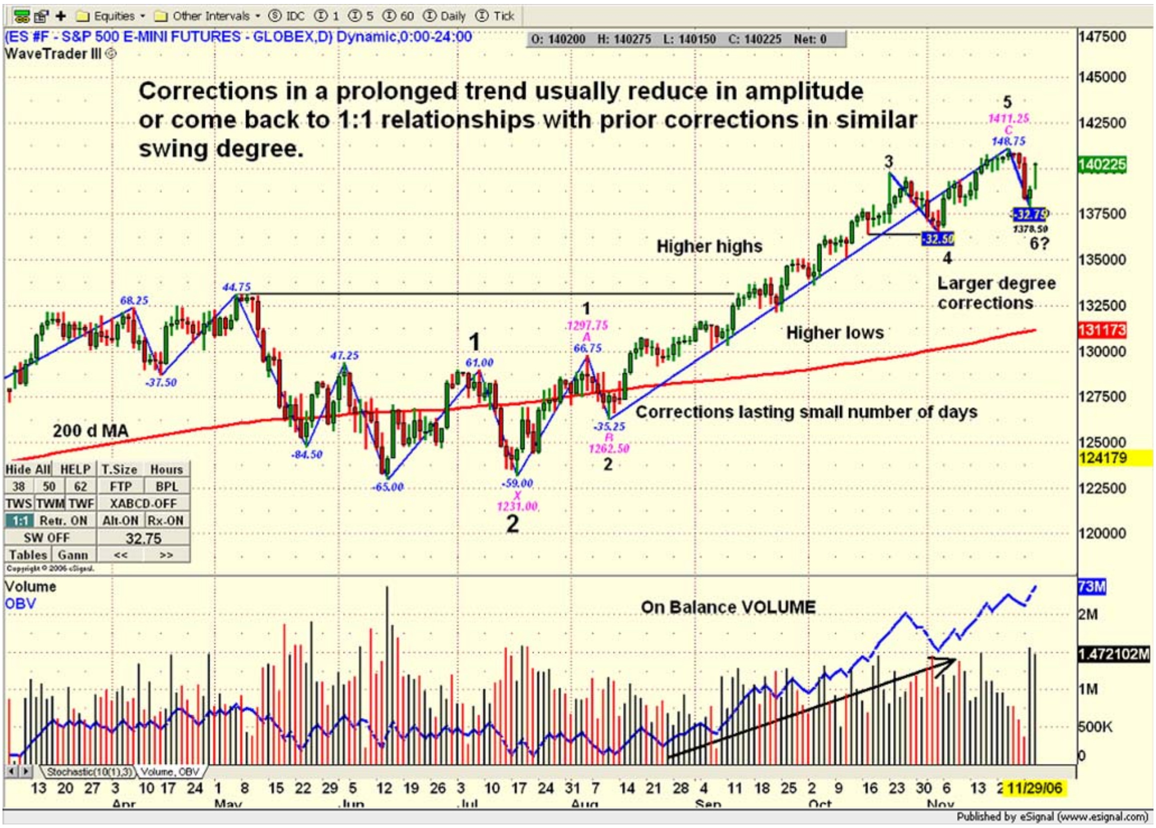
This was an amazing example of why it is so important to understand the teachings of Gann and Elliott if you want to be around in another 25 years calling yourself a successful trader.

Chapter 6

IMPLIED MARKET SUPPORT LEVELS:

Market support is a term given to levels below the market price that traders will recognize as supportive to its downward progress. They will place profit taking orders at these levels and in many instances buyers will place new orders to go net long at them. The outcome of this is to either cause the market to reverse direction for a correction or make a complete reversal in the short term trend. The first confirmation of a reversal comes when the market corrects greater than a prior correction in the MEDIUM DEGREE.

1. Double bottoms.
2. Prior swing pivot levels.
3. Retracement levels of previous ranges in divisions of 38.2, 50 and 61.8
4. 1:1 Double Drives.
5. 1:1 downward corrections in an uptrend.
6. Daily Floor Trader Pivot Levels.



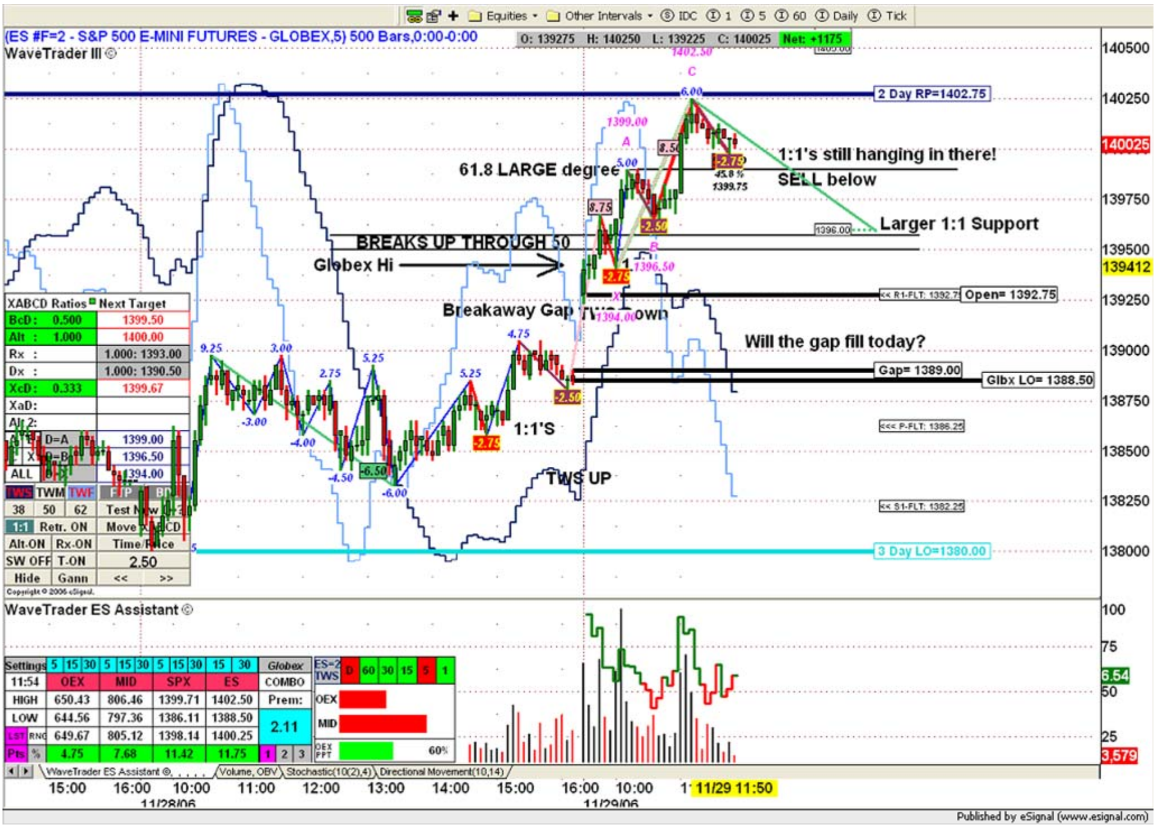
Corrections in a prolonged trend usually reduce in amplitude or come back to 1:1 relationships with prior corrections in similar swing degree.

There are two types of market trends we need to consider:-

1. Upward trending markets.
2. Downward trending markets.

In any prolonged trend either up or down corrections to that trend in the MEDIUM degree seldom last longer than 2-3 full trading days. If they do then the market could still be in a correction but it needs to be assessed as a large or larger degree correction in the bigger picture.

On a day to day basis the smaller and small swings will guide you even better to the next likely move that is unfolding if you follow the 1:1 correction rule. The market swings rotate up and down from smaller and small degree unfolding most of the time terminating as a MEDIUM degree swing and then resuming the established larger degree trend that was in progress before any set backs.



XABCD Ratios	Next Target
BcD: 0.500	1399.50
Alt : 1.000	1400.00
Rx :	1.000: 1393.00
Dx :	1.000: 1390.50
XcD: 0.333	1399.67
XaD:	
Alt 2:	
D=A	1399.00
D=B	1396.50
ALL	1394.00

Settings	5	15	30	5	15	30	5	15	30	15	30	Globex
11:54	OEX			MID			SPX			ES		COMBO
HIGH	650.43			806.46			1399.71			1402.50		Prem:
LOW	644.56			797.36			1386.11			1388.50		2.11
LST RNG	649.67			805.12			1398.14			1400.25		
Pts %	4.75			7.68			11.42			11.75		1 2 3

ES=2 TWS	D	60	30	15	5	1
OEX						
MID						
OEX PPT						60%

On this day the market opened up with a gap due to an encouraging GDP release, until 11:50am ET the ES had not corrected more than 2.75 on any pullbacks and these were in line with the 1:1's established from the day before.

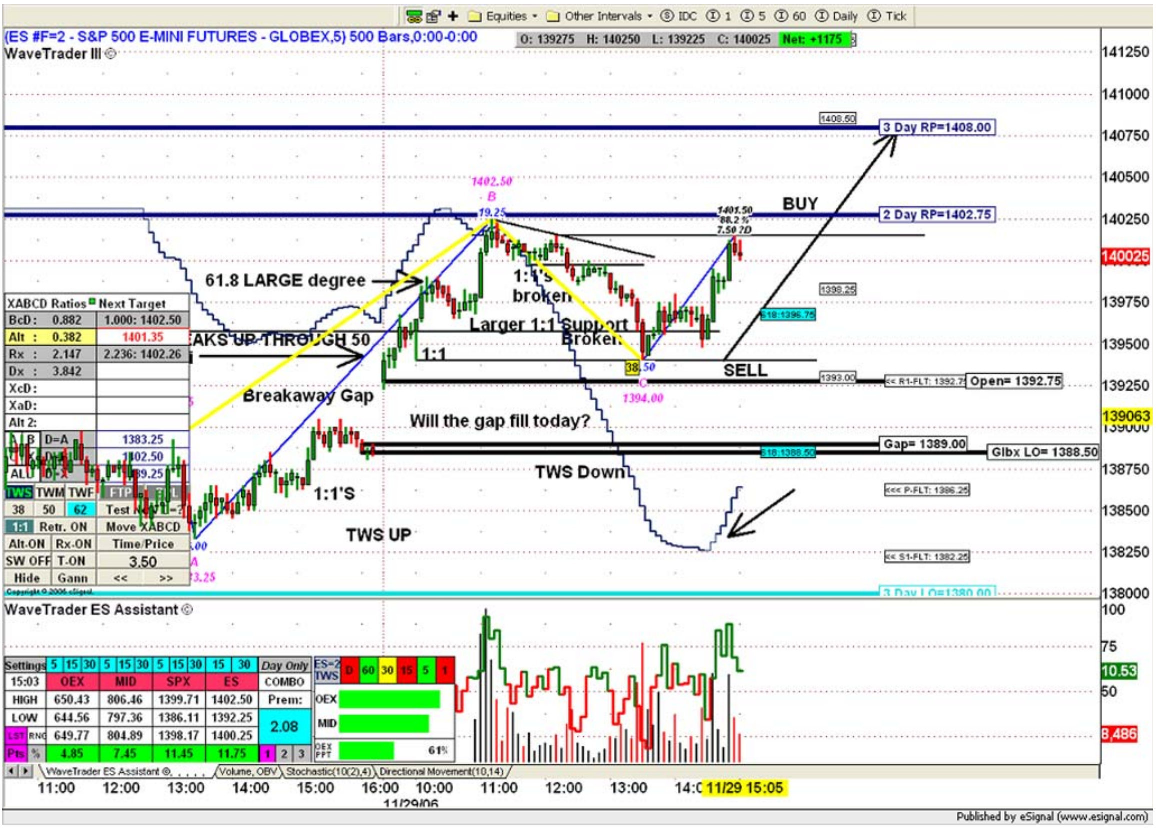
The longer 1:1 corrections propel the market higher they establish an expected zone of support as you move along. Any overbalancing of the 1:1's tells you to look to the next higher degree 1:1 for support. Break backs through prior pivot or swing levels also establish and air of weakness and lack of commitment.

But at 12:20 the ES broke this sequence indicating perhaps a larger degree correction was about to take hold.

All the little clues you see relating to SUPPORT and how the traders deal with it guide you along the way. Sometimes it is very clear cut; other times it involves patience, nevertheless if you want to stay on the right track you need to monitor the 1:1 rules and also watch the TWS (our slow trend wave in 5 minute intervals), the TWS is either going up or it is going down and to ignore its direction is a mistake.

The ES did move down until it hit IMPLIED SUPPORT on a 38.2 and a prior pivot. It broke the larger 1:1 by 2 points, but these things can happen.

After the 38.2 SUPPORT began to prove itself there was enough information to realize we were moving up into the close of the day.



XABCD Ratios	Next Target
BcD: 0.882	1.000: 1402.50
Alt : 0.382	1401.35
Rx : 2.147	2.236: 1402.26
Dx : 3.842	
XcD:	
XaD:	
Alt 2:	
D=A	1383.25

Settings	5 15 30	5 15 30	5 15 30	15 30	Day Only
15:03	OEX	MID	SPX	ES	COMBO
HIGH	650.43	806.46	1399.71	1402.50	Prem:
LOW	644.56	797.36	1386.11	1392.25	2.08
LST RNG	649.77	804.89	1398.17	1400.25	
Pts %	4.85	7.45	11.45	11.75	1 2 3

Most days have there own idiosyncrasies, yet if you follow a pattern of rules that work more often than not, you can stay on track and make trades only when the odds of being right are well weighted in your favor.

One thing to always remember, if you think the market has to break a support level to become a sell – well then it must be a buy until it does!

Chapter 7

Geometric Levels:

The market is only a medium for transactions between buyers and sellers. Why they buy and why they sell comes down to many different reasons. Nevertheless whatever these might be, the market goes up and down as a result.

If you are to succeed in this business you have to act on what you actually see them doing rather than forecast what they might do.

There are times when the forecast is easy to read but these times only become odds on possibilities when the market signals all fall together and the news agrees with them.

At all other times the market is not as certain as you might think unless you can recognize the activities of the “smart money”, their commitment to the current trend and the SUPPORT & RESISTANCE levels that lie in its path.

Fortunately for us we have a methodology and an abundance of tools we can use to prepare for every new trading session.

GEOMETRIC LEVELS of EXISTING SWING RANGES:

1. Old tops and old bottoms.
2. The 50% retrace level of a range.
3. The 61.8% retrace level of a range.
4. The 38.2% and 78.6% retrace level of a range.

Geometric levels of a range become focus points for traders to buy and sell off depending on the strength of the market action at the time. The 50% and the 61.8 levels are very common levels where you can get intraday reversals in swing action, the 38.2 and the 78.6 tend to occur more often in the larger swing ranges.

To make a complete analysis of the market position you should VISUALLY subdivide the progress of the market into waves of similar DEGREES of TREND.

1. **Minor degree. (made up of small and smaller degree)**
2. **Medium degree.**
3. **Major degree. (made up of large and larger degree)**

The market can be doing several things at any particular time:

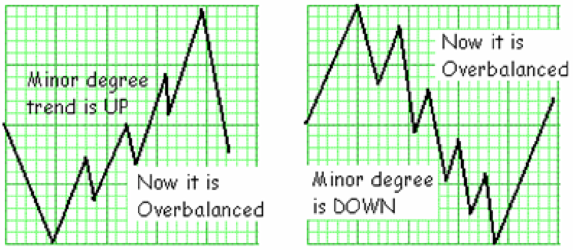
1. It could be heading in the one direction in a fast and furious manner.
2. It could be trading sideways looking for a reason to keep going in the same direction.
3. It could be searching for a resistance or support level where it can reverse direction back the other way.

The wave degree in which the market is moving is most important when you are looking at retrace levels which could reverse the price direction.

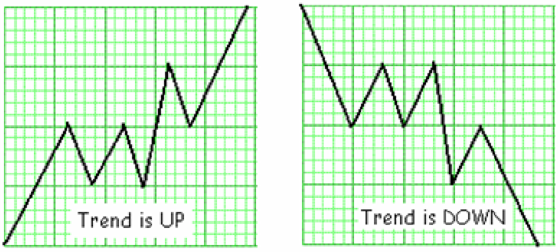
In the early stages of a new trend the corrections will generally retrace most of the early advances before it develops a reliable momentum. As a trend matures, the corrections will reduce in amplitude. Therefore the maximum to expect will be generally 50% of the smaller ranges and 38.2% of the larger ranges.

One rule of thumb I adopt to subdivide trends into degrees of activity is to look at the amplitude of the prior corrections. The corrections will either be getting less if the trend is impulsive or they will be getting larger when the directional influences are not so strong. The market trend has to be considered to be reversing when the prior corrections of medium degree overbalance – that is become greater than they were in the previous MEDIUM DEGREE price sequences. The MAJOR DEGREE trend confirms a reversal when the amplitude of the prior major correction is exceeded. Usually by this time every trend indicator you have will be telling you the same story.

I'll give you some examples:



Overbalancing in Corrections



No Overbalancing in Corrections

Looking from left to right you can see how my diagram in the first frame has the chart going UP – the 1st sign of a change in wave degree is when the downward move at the end of the chart exceeds the length of the prior corrections on the way UP. The second sign of a reversal is when the new down thrust breaks back below the last pivot high on the way UP. The third sign, and more convincing, is when the down move breaks below the last pivot low on the way up. The final confirmation comes when the down move breaks under 50% of the total points gained in the trend UP.

Frame two shows the same thing in reverse.

Frame three shows a consistent UP sequence that is not breaking the 1:1 correction rules.

Frame four shows a consistent DOWN sequence that is not breaking the 1:1 correction rules.

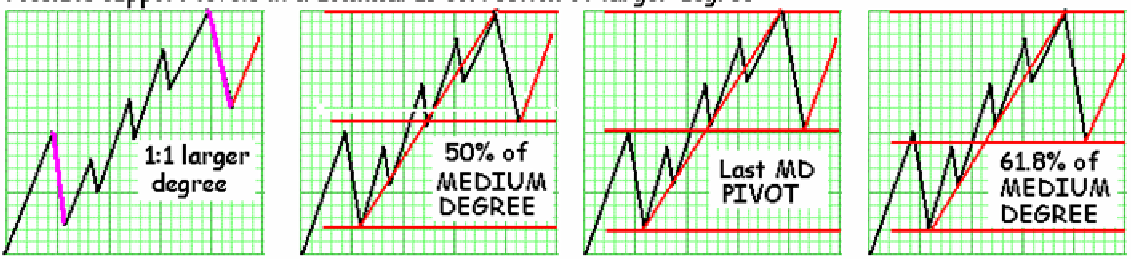
By following the 1:1 CORRECTION RULES your perspective of the trend in progress remains lucid and you can see in which direction to trade is the most favorable one.

These are the guidelines I follow religiously as it does not matter what the market does. At all times it is telling me the most favorable direction to trade in.

Now you should have a gist on how to read the market direction:

Once you get this idea in your head you can move onto selecting the retrace levels that become important in the medium degree waves.

Possible support levels in a downwards correction of larger degree:



Market support levels in order of priority. If all these fail then the trend has reversed.

I am only illustrating the bullish case in this example of retrace levels to give you a guide as to where the “smart money” will consider potential support returning to the market.

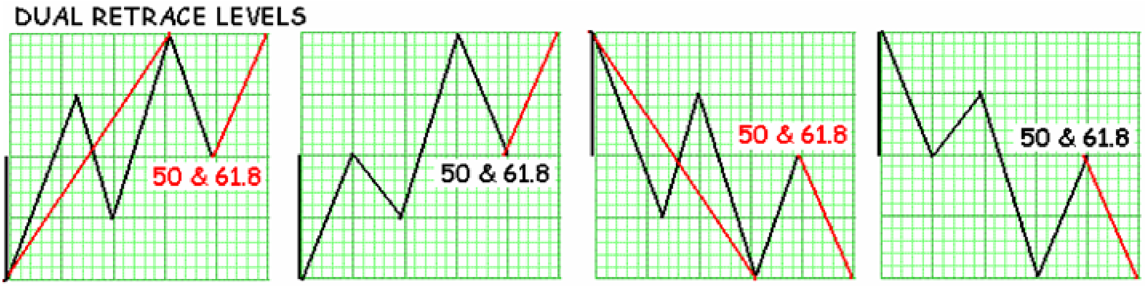
Now the real advantage in knowing this is when any of these cases coincide at the same level.

For instance if:

1. The 1:1 came together at a 50 or 61.8 retrace, it would certainly attract everyone’s attention.
2. Then if the 1:1 came together with a previous medium degree price pivot, that would also get their attention.
3. If a 50 retrace came together with a previous medium degree price pivot that would also get their attention.

Individually the only one that is important in its own right is the 1st case of a 1:1 reversal.

THE DUAL RETRACEMENT PHENOMENA:



These situations appear quite often - nevertheless they are an each way bet unless the 1:1 is present - in which case you make sure that you have a SAR (stop and reverse order).

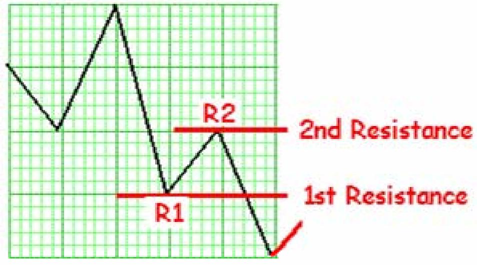
From a price action trading approach, if you are out to make money, it isn't really worth considering too many things on an intraday basis. You will either be reading the signs and they will be clear, or else you are better off out of the market.

If you want to think about it, the best way to make money is to only enter the market when everything is in your favor. This is when everything says you have the best chance for it to work for you. So far I have given you the rules and the means to succeed. If you don't believe me then just watch the market every day for a few years and you will realize it.
The next and only step is to refine when you should act and when you shouldn't.

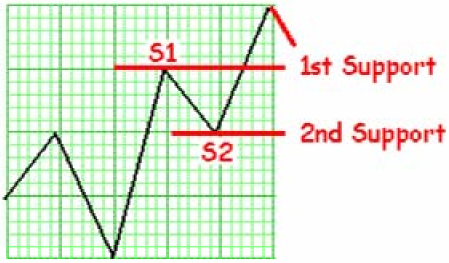
For this I have some other tools and when you learn to refine the use of them, they will keep you heading in the right direction. They will also keep you on the winning side. It is not so hard to place an order in the market to buy or sell – that part is easy to do. But to WIN you have to learn when to do it and when to stay out.

Previous market High and Low Pivots:

Past market pivot points are interpreted by traders as natural support and resistance. If they coincide with a geometric level such as 38.2, 50 or 61.8 in a previous series of waves they take on a stronger technical meaning.



Old Support becomes New Resistance



Old Resistance becomes New Support

Market pivots on a 5 minute chart during the day give traders a guide to where buyers or sellers have acted in the past; so the assumption is they will act there again.

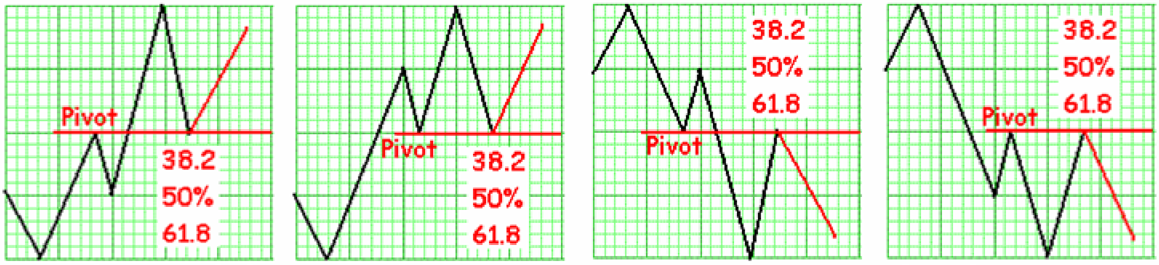
Let’s for example say in the case of a rising market in which there is a reversal in the direction. The buyers will exit positions if the market breaks back through the previous high pivot and they will most certainly exit long positions if the market breaks back below the previous low pivot. If the prior trend has been exceptionally strong they might even see the S1 and S2 level as a buying point. The S2 level represents a double bottom and we know how many of those we see in the daily patterns.

Breaks of Support indicate further weakness and breaks of Resistance indicate further strength.

If you keep note of the market pivots on your 5, 15, 60 and daily charts, you will know from the volume as the market approaches them if they are going to break or not.

PIVOT COMBINATIONS:

These are ideal trading opportunities. You can buy or sell for a reversal and if the market does not reverse you can stop and reverse (SAR) and go with the continuation.



These are ideal situations where you can expect a reversal to occur - if not then SAR.

You will see opportunities such as these come in Minor, Medium or Major Degree situations.

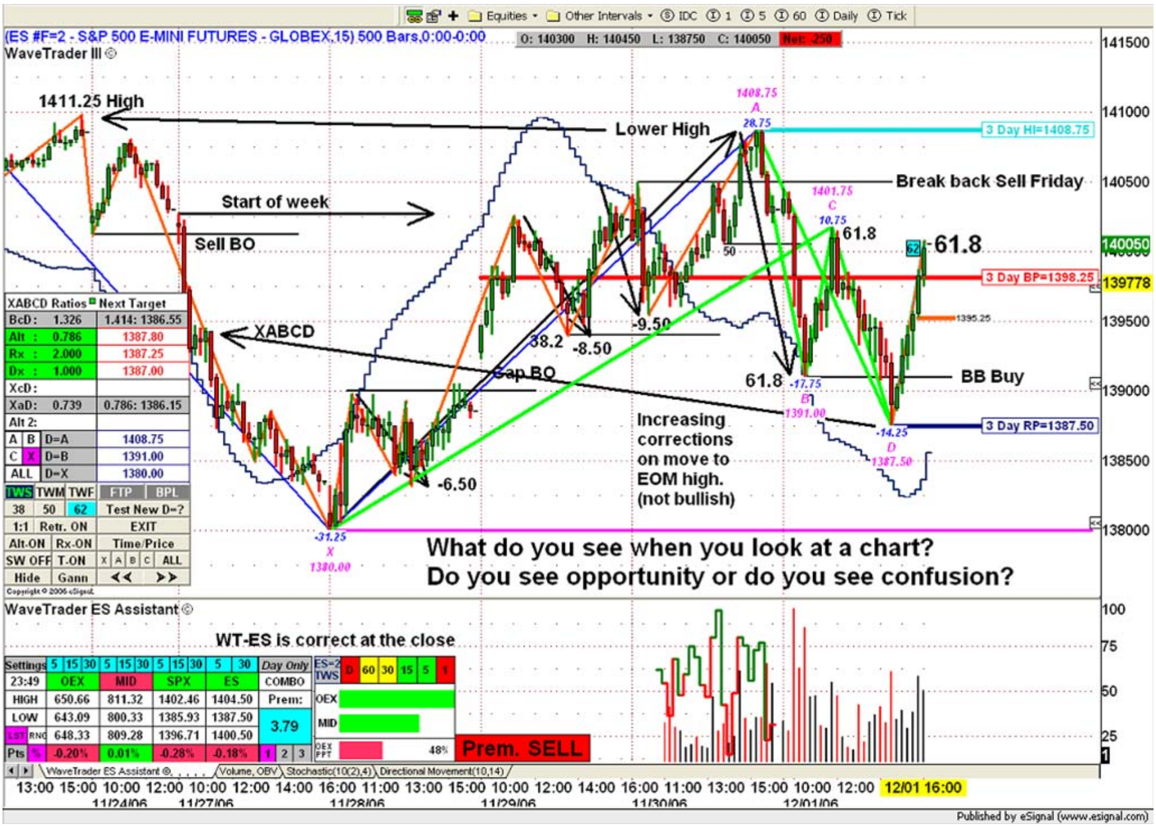
It is even possible for situations like these to occur in the OEX and the flow through into the S&P500. Because of it, it reverses the S&P500. This is why it is very important for you to monitor the OEX at all times.

The OEX index is the top S&P100 stocks and these make up approximately 66% of the entire S&P500 market capitalization so if the OEX starts moving the S&P500 will move along at a much faster pace.

EACH WEEKEND:

It is a good idea to review each week's events after the fact then you will see how often the intraday reversals occur on Geometric levels of smaller, small and medium degree swing action.

If you do it for long enough you will become a believer.



XABCD Ratios	Next Target
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Alt : 0.786	1387.80
Rx : 2.000	1387.25
Dx : 1.000	1387.00
XcD:	
XaD: 0.739	0.786: 1386.15
Alt 2:	
A B D=A	1408.75
C X D=B	1391.00
ALL D=X	1380.00

TWS TWM TWF FTP BPL
38 50 62 Test New D=?
1:1 Retr. ON EXIT
Alt-ON Rx-ON Time/Price
SW OFF T-ON X A B C ALL
Hide Gann << >>
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Settings	5 15 30	5 15 30	5 15 30	5 30	Day Only
23:49	OEX	MID	SPX	ES	COMBO
HIGH	650.66	811.32	1402.46	1404.50	Prem:
LOW	643.09	800.33	1385.93	1387.50	3.79
LST RNG	648.33	809.28	1396.71	1400.50	
Pts %	-0.20%	0.01%	-0.28%	-0.18%	1 2 3

ES=2 TWS	D	60	30	15	5	1
OEX						
MID						
OEX PPT	48%					

Prem. SELL

The price action method gives you some control over the events that will influence trader participation.

When the money comes into the market at specific levels you can identify the "smart money" thinking at the time.

It won't matter what anyone else thinks as long as the money flow is directed in a particular direction. It will take a huge force to stop it, so until the guys selling or buying off levels see no result for their efforts they will keep pushing their way onto the opposition.

This is never going to change. The guys in the winning position usually know how long to apply the pressure, and once they have taken the market to a point where it becomes more difficult to keep it going they will take profits.

Chapter 8

1:1 Market Geometry Theory:

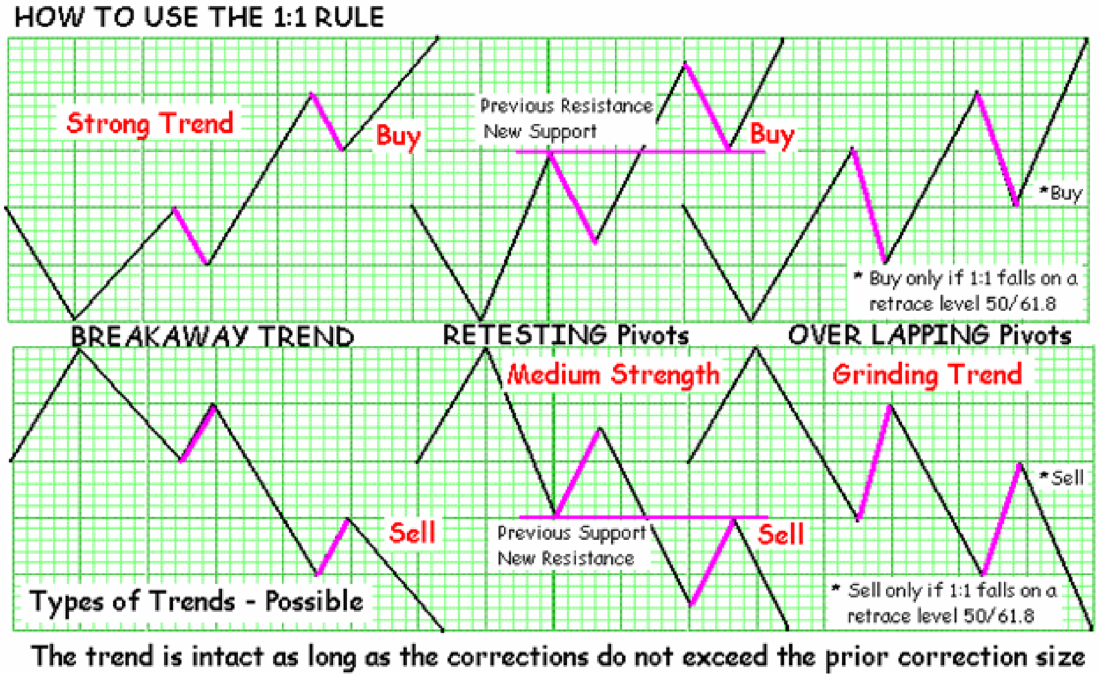
There are two distinct TYPES of 1:1 geometry that you need to understand the characteristics of to fully take advantage of them in real time trading situations.

Firstly there is the simpler 1:1 CORRECTION we witness in a market moving progressively along to new highs in a bullish trend and conversely moving along to new lows in a bearish trend.

Depending on the swing degree you are witnessing the 1:1 CORRECTION level gives you the opportunity to re-enter TRENDS at the precise zone that indicates TECHNICAL support or resistance, not to be broken, if the TREND in that SWING DEGREE is going to maintain its overall advance or decline in the current swing series.

The 1:1 Correction variations:

There are 3 distinctive styles of 1:1 CORRECTIVE geometry.


HOW TO USE THE 1:1 RULE
Strong Trend
Buy
Previous Resistance
New Support
Buy
*Buy
* Buy only if 1:1 falls on a retrace level 50/61.8
BREAKAWAY TREND
RETESTING Pivots
OVER LAPPING Pivots
Medium Strength
Grinding Trend
*Sell
Sell
Previous Support
New Resistance
Sell
Types of Trends - Possible
* Sell only if 1:1 falls on a retrace level 50/61.8

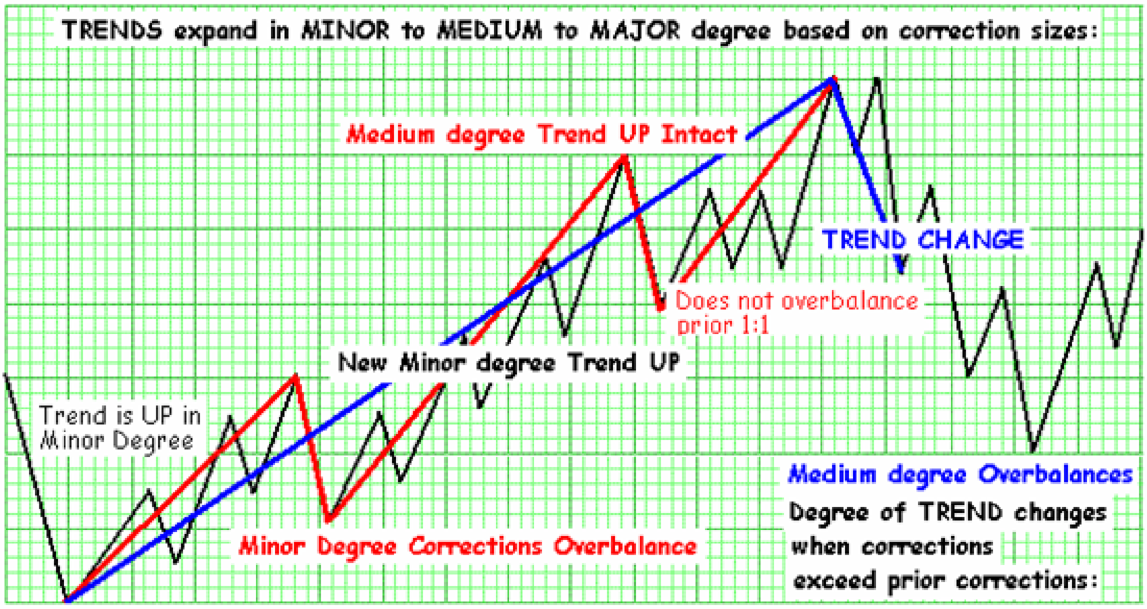
The trend is intact as long as the corrections do not exceed the prior correction size

When a trend appears to be established it will keep confirming its direction by not overbalancing to prior corrections of similar swing degree.

In simple terms 1:1 corrections will form first in the minor degree swings, then enlarge to form 1:1 corrections in medium degree and can enlarge again to form larger degree 1:1 corrections as the larger degree trend confirms itself.

In the minor degree swings it is often possible to see a series of 3 and sometimes 4 consecutive 1:1 corrections. In the medium and larger degree swings the series seldom produces more than 2 consecutive 1:1's although 3 is always a possibility although it is a low probability.

So you could see a situation like this unfold in a larger degree swing series.

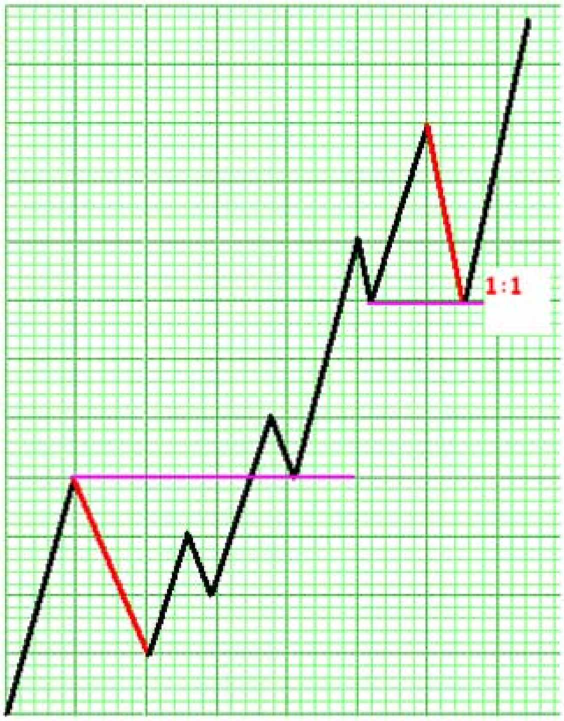

TRENDS expand in MINOR to MEDIUM to MAJOR degree based on correction sizes:
Medium degree Trend UP Intact
TREND CHANGE
Does not overbalance prior 1:1
New Minor degree Trend UP
Trend is UP in Minor Degree
Medium degree Overbalances
Degree of TREND changes when corrections exceed prior corrections:
Minor Degree Corrections Overbalance

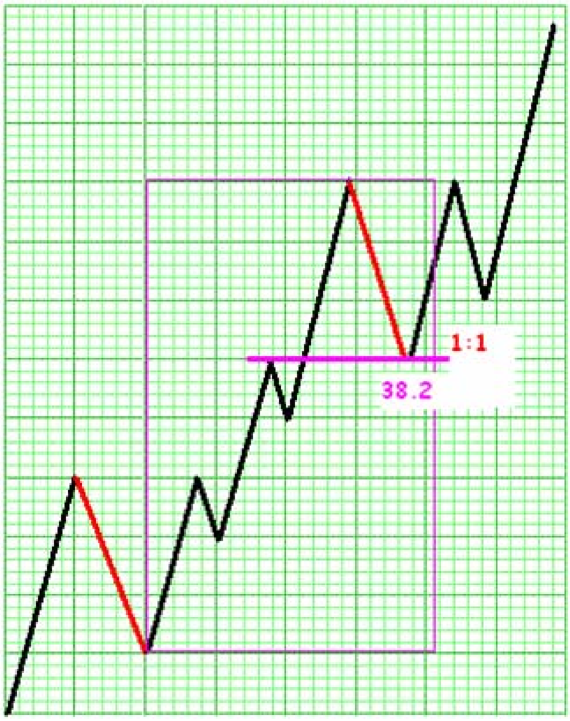
The 1:1 correction rule should keep you focused on the strength or weakness of any intraday, medium degree or major degree trend in progress. The minor degree intraday trend will remain intact as long as the future corrections do not exceed the amplitude of the prior correction swing of similar degree. The medium degree and major degree trend will remain intact using the same rule.

If you use the 1:1 correction rule taking into consideration the current TREND POSITION in relative swing degree and the 38.2, 50 and 61.8 levels of the ongoing larger ranges as definitive support or resistance you will often find levels where support or resistance has two or more logical reasons.

There will also be times where a 1:1 correction of higher degree swing comes back to terminate on a double bottom or double top pivot of lesser degree at the same time. 1:1 corrections are powerful technical levels if they coincide with other significant geometric levels ranging from prior pivot levels to retracement levels of similar degree.

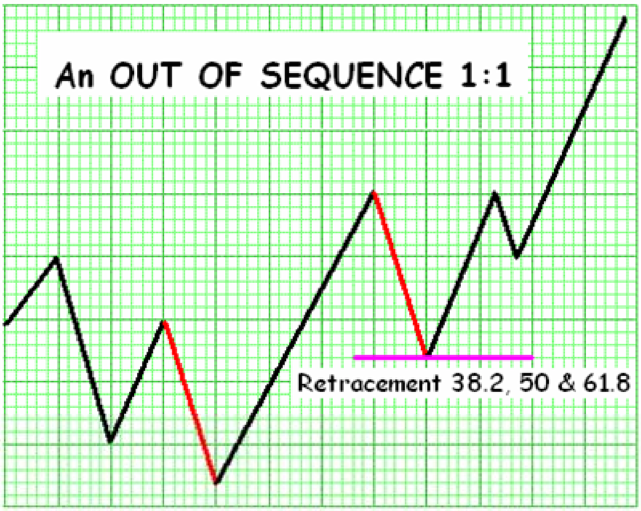
Typical situations could be occasions such as these:





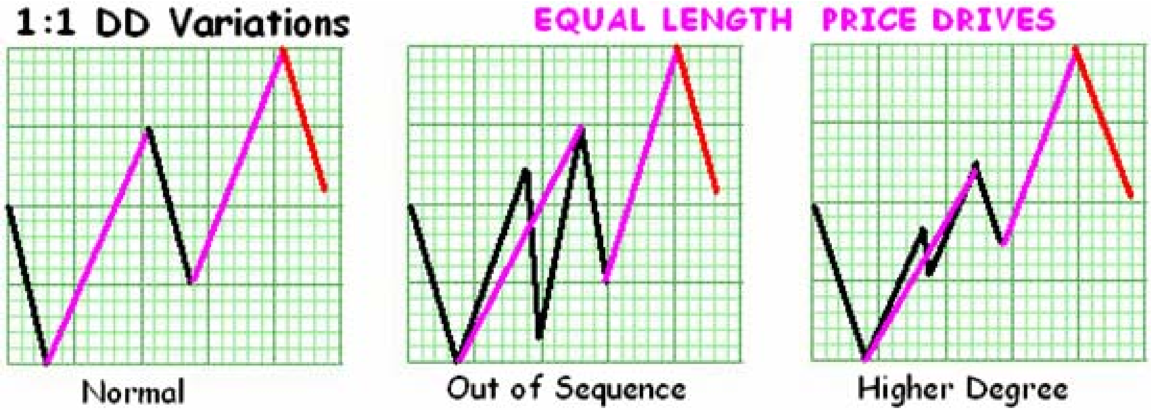
The "Clayton's 1:1":

There are some situations where you will see an early correction in a new move terminate on what I refer to as the "Clayton's 1:1". This is an out of sequence 1:1 geometry that I call the 1:1 you are having when you are not having a 1:1 in sequence.



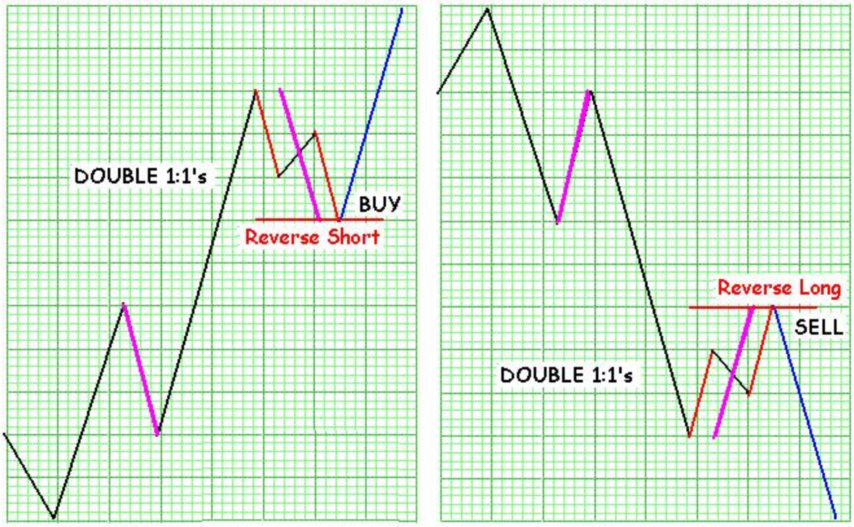
DOUBLE DRIVE 1:1's (DD's)

The second TYPE of 1:1 market geometry is formed when you have reversals of trend unfolding on equal length swings in a connected sequence of waves of either small, minor, medium or larger degree.


1:1 DD Variations
EQUAL LENGTH PRICE DRIVES
Normal
Out of Sequence
Higher Degree

The 1:1 DD is a swing series of 3 waves – 2 advancing swings with a correction in the middle. The DD correction is normally smaller than any correction preceding the 1st Drive in the DD. Although I have seen cases of OUT OF SEQUENCE 1:1 DD's, albeit they are rare.

The DOUBLE DRIVE 1:1 Combination 1:1 CORRECTION Reversal:


DOUBLE 1:1's
BUY
Reverse Short
Reverse Long
SELL
DOUBLE 1:1's

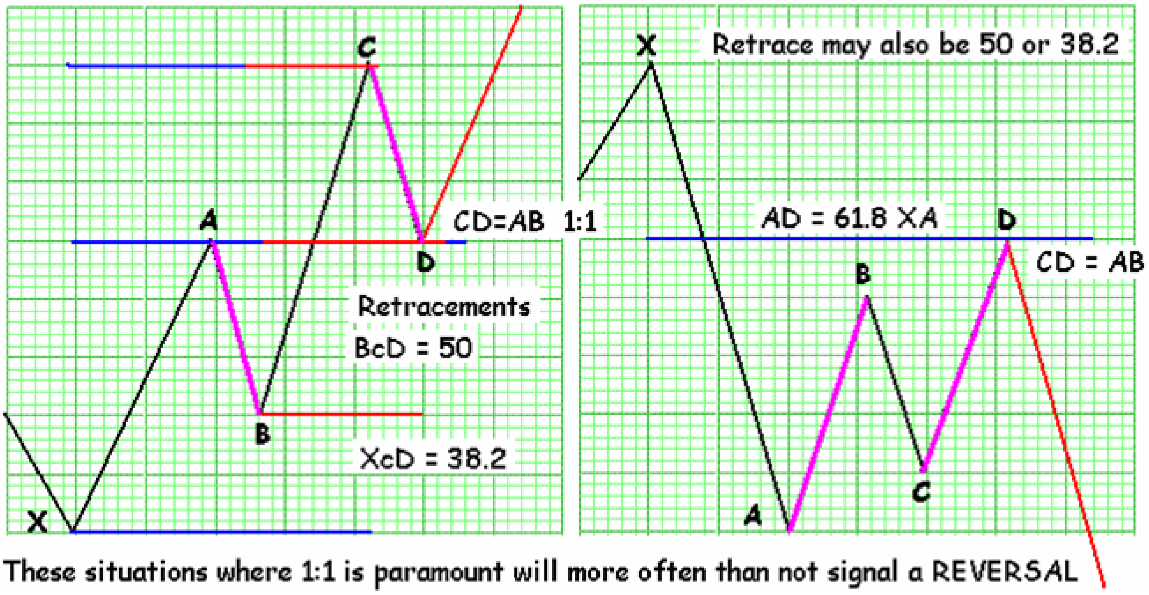
A corrective 1:1 DD terminating on a retracement level to a prior range or in conjunction with a 1:1 CORRECTION of higher degree is a powerful reason for a reversal.

When the Double Drive combines with either another 1:1 or a significant retrace level such as 38.2, 50 or 61.8, a reversal of some significance is almost certain.

Either way it will not matter too much because if the reversal does not occur, you are getting a green light for a continuation in progress.

If you are trading for a reversal, rather than by just placing a stop loss you should lodge a STOP & REVERSE order for the occasion where the market breaks through and continues on its way.

1:1's on RETRACEMENT LEVELS:



These situations where 1:1 is paramount will more often than not signal a REVERSAL

COMBINATION 1:1's are very powerful technical points of force.
1:1 combinations regularly fall together with the smaller degree waves combining with the larger degree waves. You should always be aware of where the 1:1 levels are as they are going to offer outstanding trading opportunity.

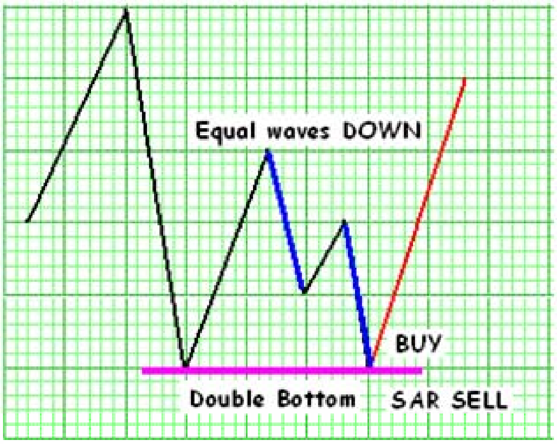
Do not overlook these patterns as they are regularly unfolding in most markets on a daily basis. You can place orders within 3 ticks of the target price and almost always guarantee you will get a fill.

These patterns are very common in corrective moves against the prevailing larger swing degree and trend.

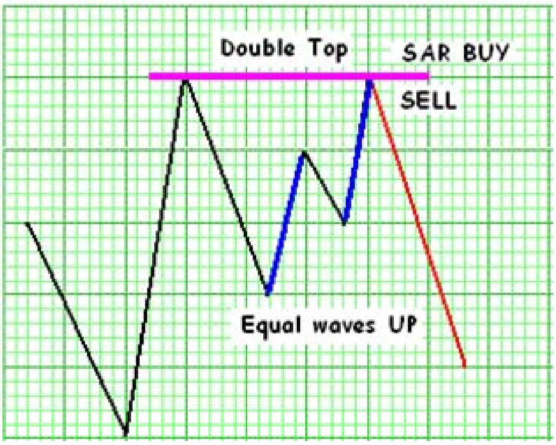
1:1 DD's can unfold in corrections to an existing trend or they can terminate advances in swings that are traveling into new uncharted territory.

1:1 Double Drives into a Double Top or Double Bottom.

These are set ups that stand out in advance because they will be something that is recognizable to most professional traders well in advance of the double top or a double bottom.
The fact that the internal geometry is there, adds a lot more weight to the chance of a reversal. If you take the trade, then all you need to do is place a STOP and REVERSE (SAR) order on the other side of the double top or double bottom to catch a continuation if the market fails to reverse direction.


Equal waves DOWN
BUY
Double Bottom
SAR SELL

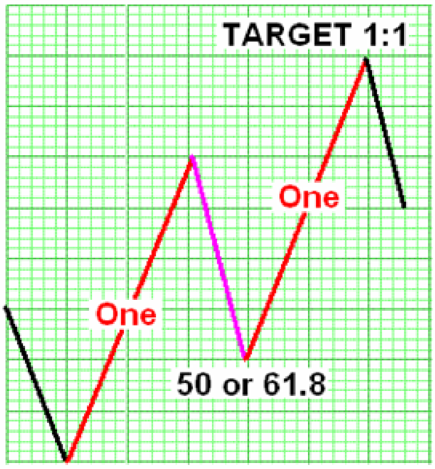
Double Drive 1:1 into Double Bottom

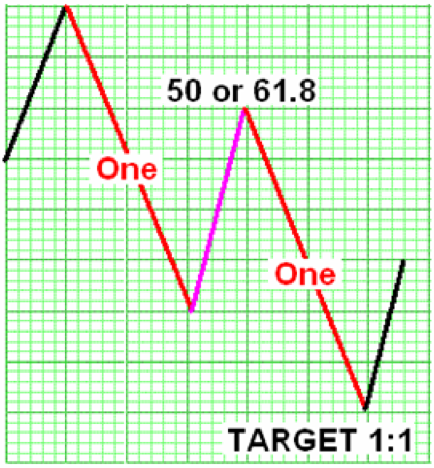

Double Top
SAR BUY
SELL
Equal waves UP

Double Drive 1:1 into Double Top

Setting targets using 1:1's:

Anytime the market is heading up or down and is moving ahead after a 50 or a 61.8 retracement and then breaks out the next obvious resistance or support level for geometric traders will be when it reaches the 1:1 Double Drive level. Retracements in the 1:1 swing series can fall on any ratio but the 50 and 61.8 are ones that add a lot more certainty to the projected 1:1 target level.


TARGET 1:1
One
One
50 or 61.8


50 or 61.8
One
One
TARGET 1:1

You should always be aware that equal wave geometry in alternate impulse swings becomes your priority MOB (make or break) target level for a potential reversal of lesser degree to begin a corrective phase.

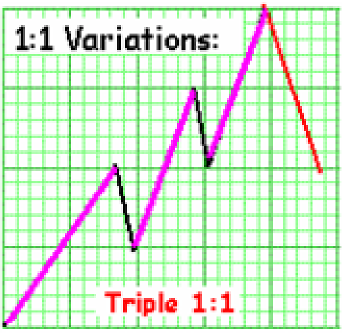
The WaveTrader III for eSignal will automatically keep track of where the 1:1's are and will display them on your charts so you can visibly see where they are being generated from. The important ones are listed below.

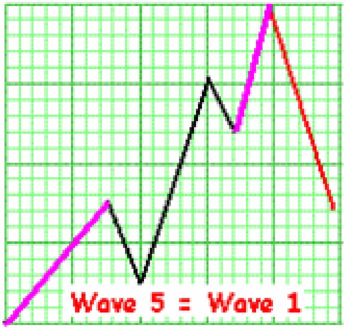
- 1:1 Corrections in an ongoing trend.
- 1:1 Double Drives in alternate impulse swings.
- 1:1's going into a retrace level of 38.2, 50, 61.8
- 1:1's going into a double top.
- 1:1's going into a double bottom.
- Combination 1:1 DD into 1:1 Correction.
- 1:1's going into a prior pivot point level.

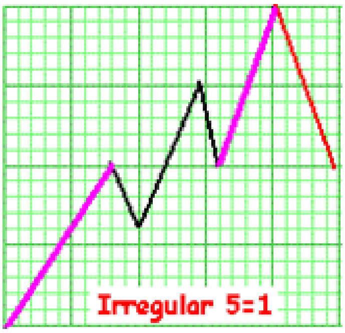
The reason these patterns are so powerful is because they adhere to the principles followed by the Elliott Wave fraternity. In fact most of my geometric patterns are Elliott Wave or Gann based. The followers of these disciplines place orders at the precise levels where the ratios calculate to. It even appears to me these days that large institutional traders have the 1:1 geometry computerized in such a way that the computers fire in the orders when they hit.

These are some other variations of the 1:1 theory which you will witness on occasions:

1. The triple 1:1
2. The wave 5 equals wave 1 as a one to one.
3. Irregular wave 5 equals wave 1 (W 3 is shorter than W1)

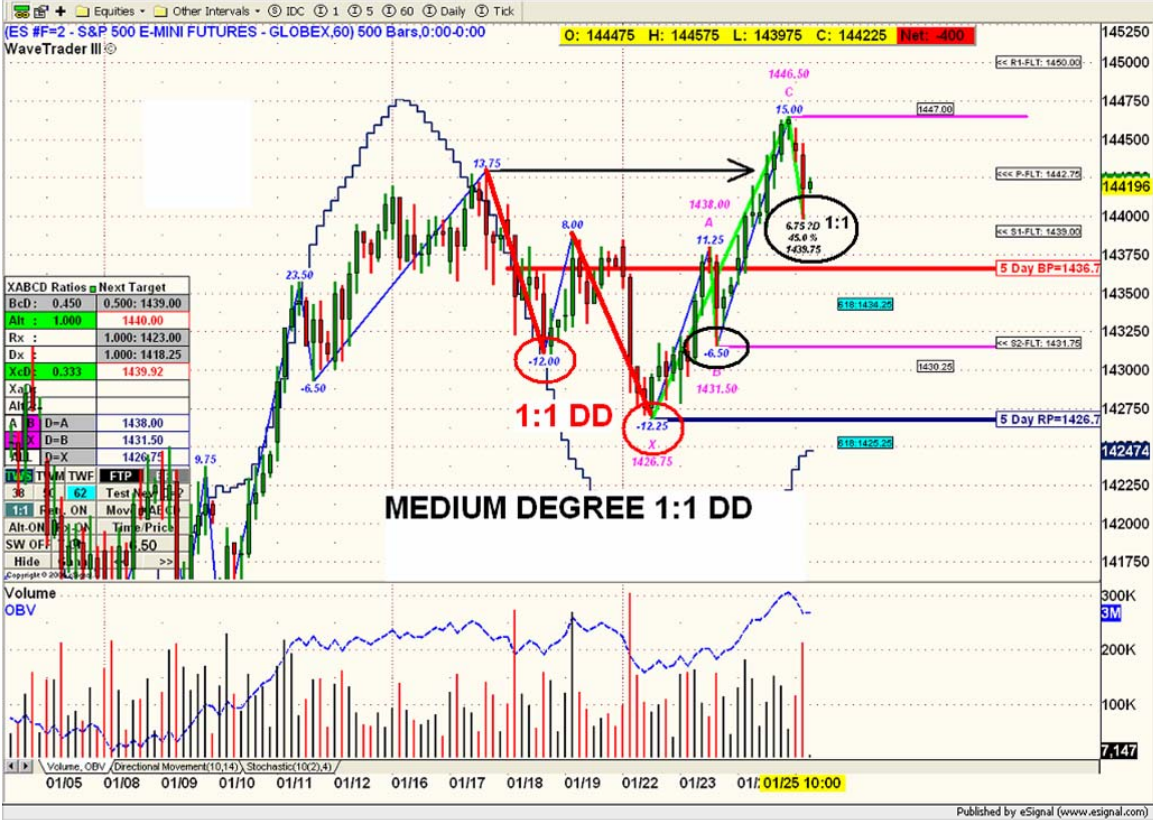


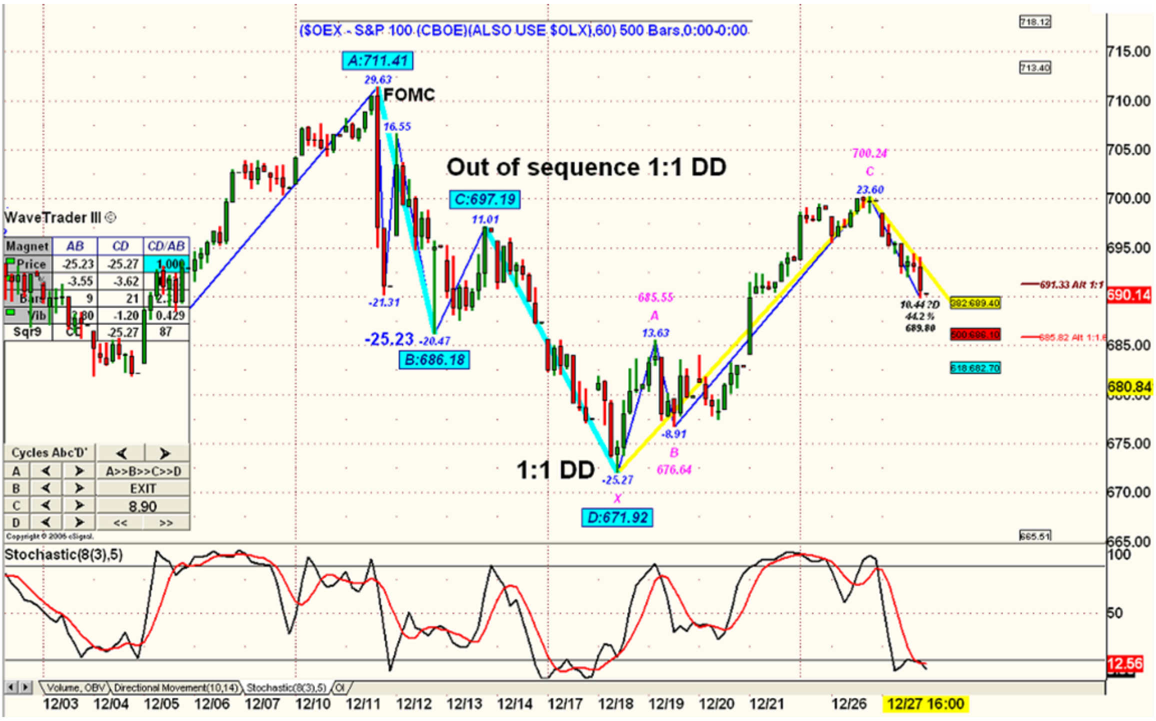




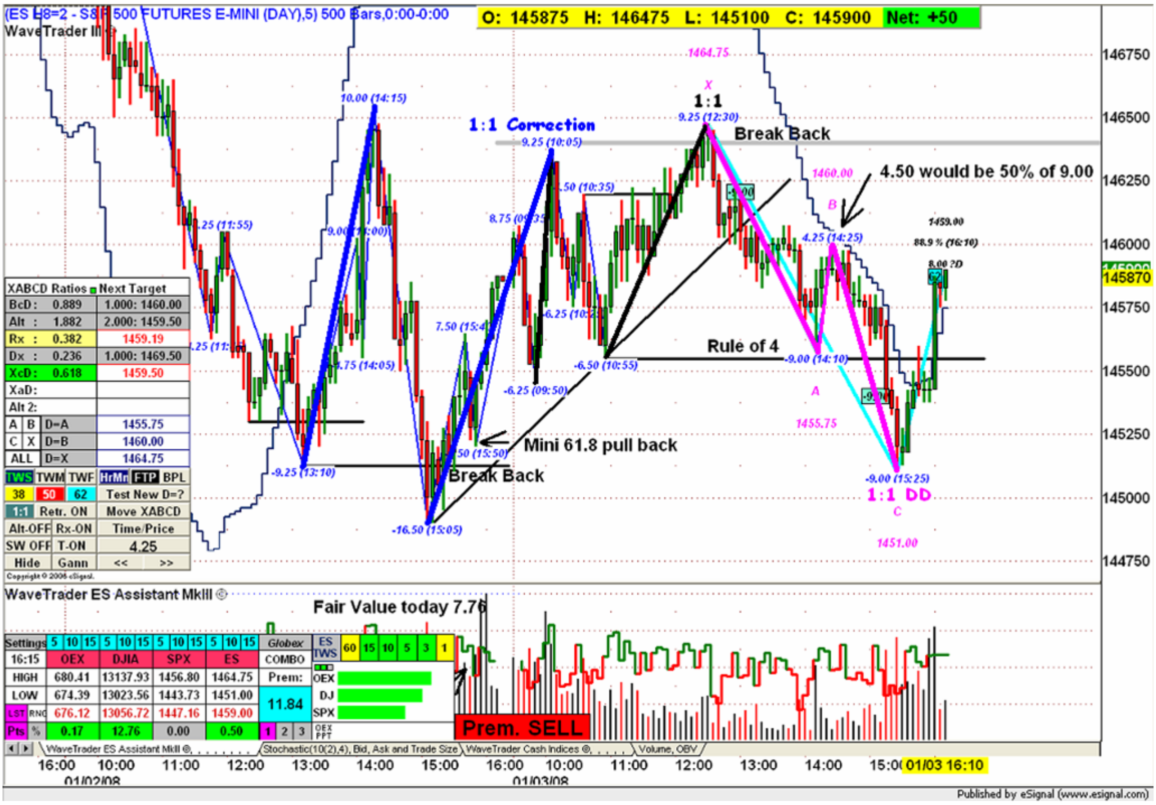
Once you have experienced the 1:1 phenomena in markets you will wonder why you hadn't known about these things long before this. But then it is never too late to learn to take advantage of the markets repeating habits.

Here's an example of a typical 1:1 DD down to a low. The ES market reversed back into the upward trend after completing a 3 day correction at the time.





This OEX chart shows an out of sequence 1:1 DD unfolding over 5 days into the low at 671.92 OEX. The 1st day down started on the FOMC announcement.


(ES H8=2 - S&P 500 FUTURES E-MINI (DAY),5) 500 Bars,0:00-0:00
WaveTrader II
O: 145875 H: 146475 L: 145100 C: 145900 Net: +50
1:1 Correction
1:1
Break Back
4.50 would be 50% of 9.00
Rule of 4
Mini 61.8 pull back
Break Back
1:1 DD
1464.75
1460.00
1459.00
88.9 % (16:10)
8.00 ?D
1455.75
1451.00
10.00 (14:15)
9.25 (10:05)
9.25 (12:30)
4.25 (14:25)
-9.00 (14:10)
-9.00 (15:25)
-16.50 (15:05)
-9.25 (13:10)
-6.25 (09:50)
-6.50 (10:55)
7.50 (15:4
146750
146500
146250
146000
145870
145750
145500
145250
145000
144750
Fair Value today 7.76
Prem. SELL
16:00
10:00
11:00
12:00
13:00
14:00
15:00
01/02/08
01/03/08
01/03 16:10
Published by eSignal (www.esignal.com)

XABCD Ratios	Next Target
BcD : 0.889	1.000: 1460.00
Alt : 1.882	2.000: 1459.50
Rx : 0.382	1459.19
Dx : 0.236	1.000: 1469.50
XcD : 0.618	1459.50
XaD:	
Alt 2:	
A B D=A	1455.75
C X D=B	1460.00
ALL D=X	1464.75

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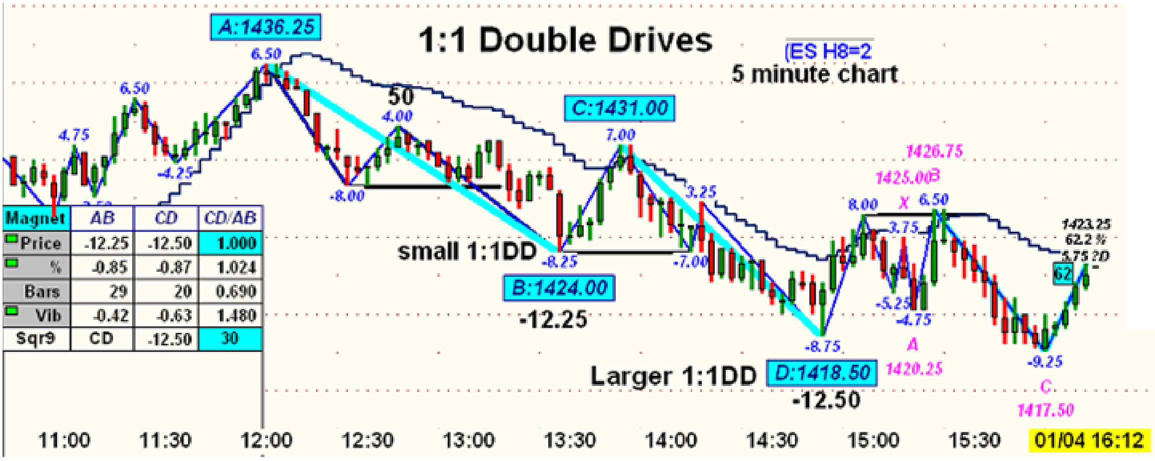
WaveTrader ES Assistant MkIII ©

Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
16:15	OEX	DJIA	SPX	ES	COMBO
HIGH	680.41	13137.93	1456.80	1464.75	Prem:
LOW	674.39	13023.56	1443.73	1451.00	11.84
LST RNG	676.12	13056.72	1447.16	1459.00	
Pts %	0.17	12.76	0.00	0.50	1 2 3

1:1's come in numerous forms, be alert to them no matter how they form.

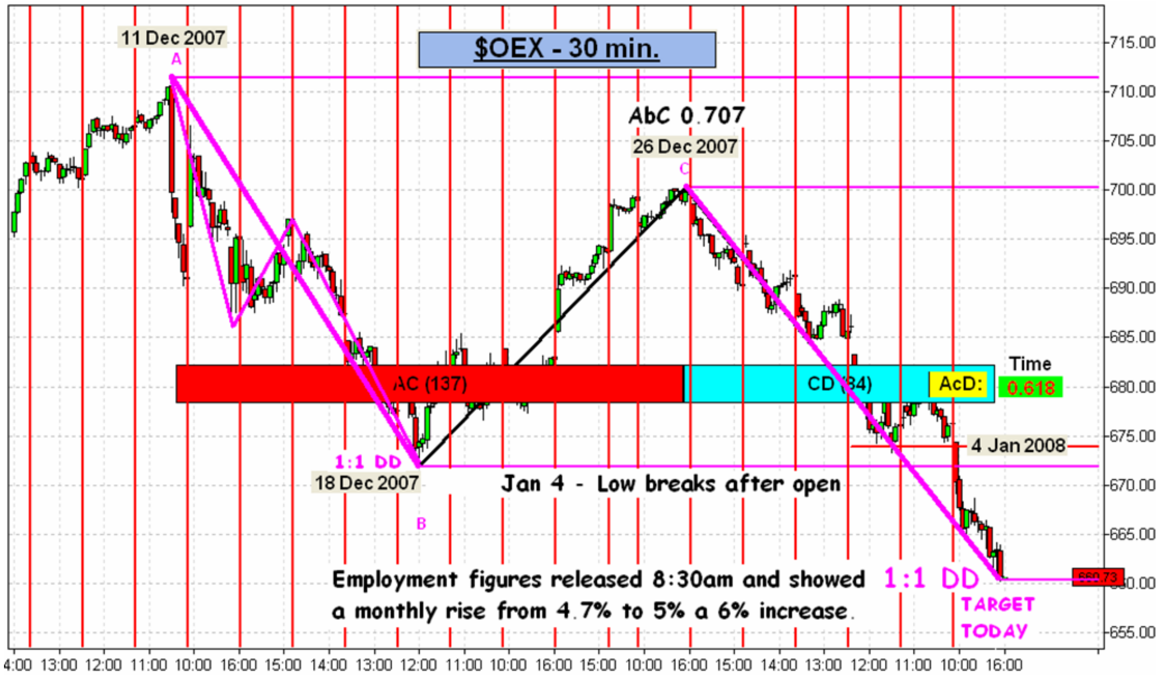

1:1 Double Drives
(ES H8=2
5 minute chart
A:1436.25
B:1424.00
C:1431.00
D:1418.50
small 1:1DD
-12.25
Larger 1:1DD
-12.50
50
6.50
6.50
4.75
-4.25
4.00
-8.00
7.00
-8.25
3.25
-7.00
-8.75
8.00
X
6.50
-3.75
-5.25
-4.75
1426.75
1425.00
B
A
1420.25
1423.25
62.2 %
5.75 ?D
-9.25
C
1417.50
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00
15:30
01/04 16:12

Magnet	AB	CD	CD/AB
Price	-12.25	-12.50	1.000
%	-0.85	-0.87	1.024
Bars	29	20	0.690
Vib	-0.42	-0.63	1.480
Sqr9	CD	-12.50	30

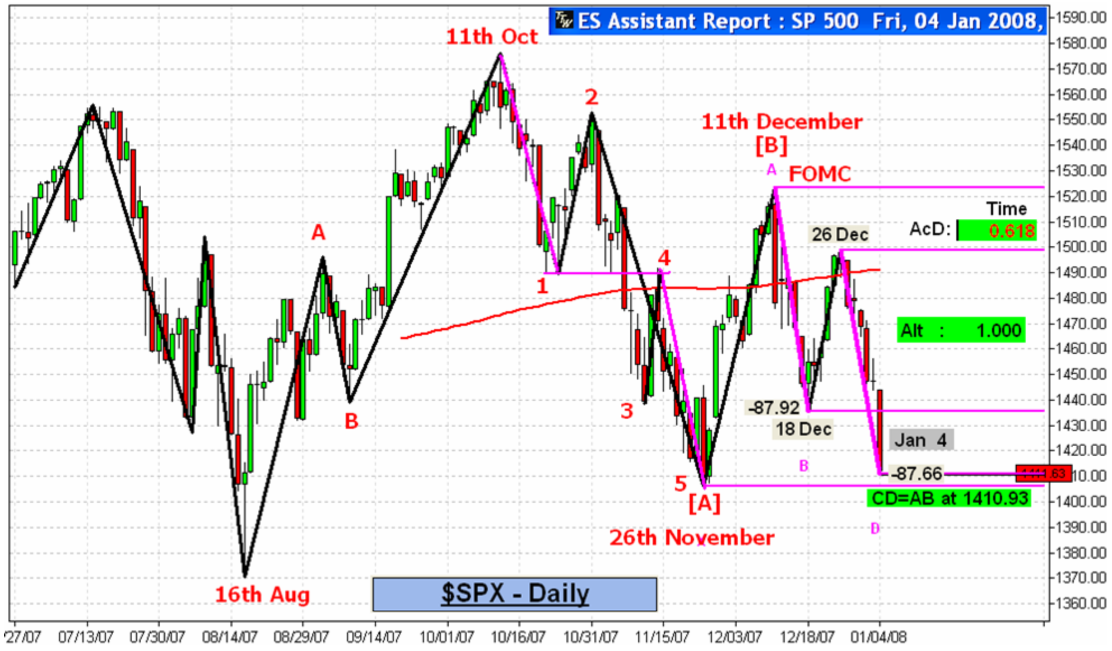
The majority of 1:1 trading opportunities will be provided to you on a day by day basis in the small and minor degree swings. THERE IS SELDOM A DAY PASSES BY WHERE YOU DO NOT WITNESS A 1:1 SET UP OF SOME SIGNIFICANCE.

Besides your intraday trading time frames (1, 3 and 5 minute) you should also always monitor the market in the 15, 30 and 60 minute time frames for the higher swing degree 1:1 price targets or potential reversal levels during your trading day.

At least once a week a LARGE or LARGER DEGREE SWING set up COMES INTO PLAY on 1:1 geometry.



This is where the **WaveTrader Assistant** pays for itself over and over again as it allows you to instantly monitor ES, OEX, DJIA and SPX in multiple time frames for all the important geometry applicable to our trading approach. Without the WT software I can guarantee you will miss plenty of opportunity and only realize it after the event when it is no longer of any use to you.

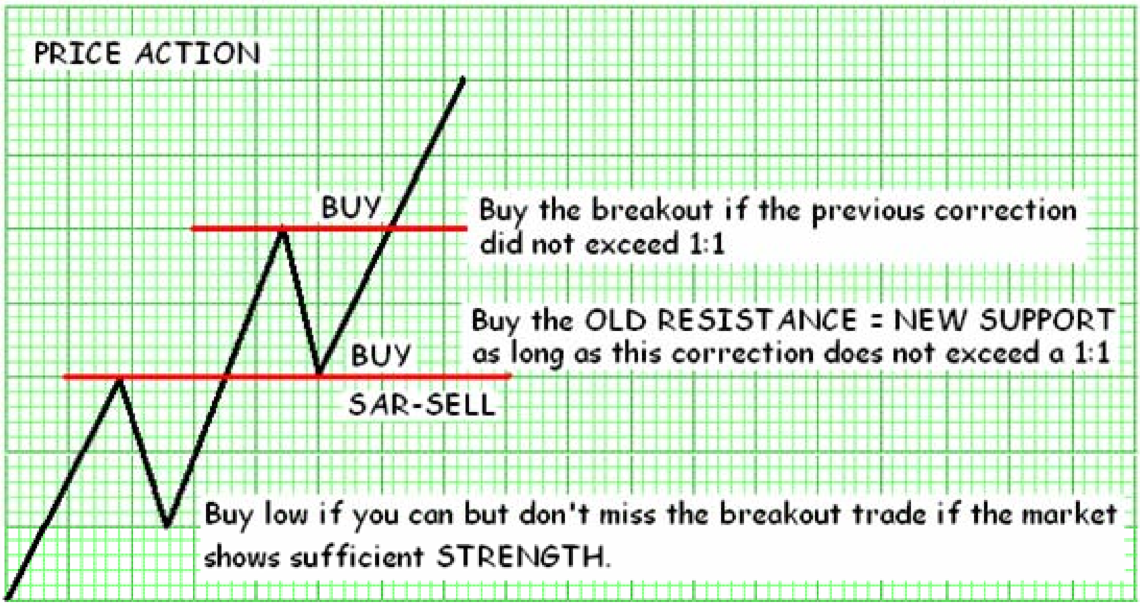


Chapter 9

Basic BUY PATTERN Set ups:

I will now lay down the foundations for sensible trades you can take on an intraday basis. These set ups are just as valid in the MINOR DEGREE, MEDIUM DEGREE or MAJOR DEGREE.

My policy is the KISS policy – Keep It Simple Simon. For these entries to give you the best possibility of success the market needs to be agreeing with your perception of its direction.


PRICE ACTION
BUY
Buy the breakout if the previous correction did not exceed 1:1
Buy the OLD RESISTANCE = NEW SUPPORT as long as this correction does not exceed a 1:1
BUY
SAR-SELL
Buy low if you can but don't miss the breakout trade if the market shows sufficient STRENGTH.

Conditions:

The market needs to be displaying signs of an upward trend in progress.

If you have confirmed that the 60 minute trend is up, you should always take these trades as they will work better than 50% of the time and some of them will become runners for good profits.

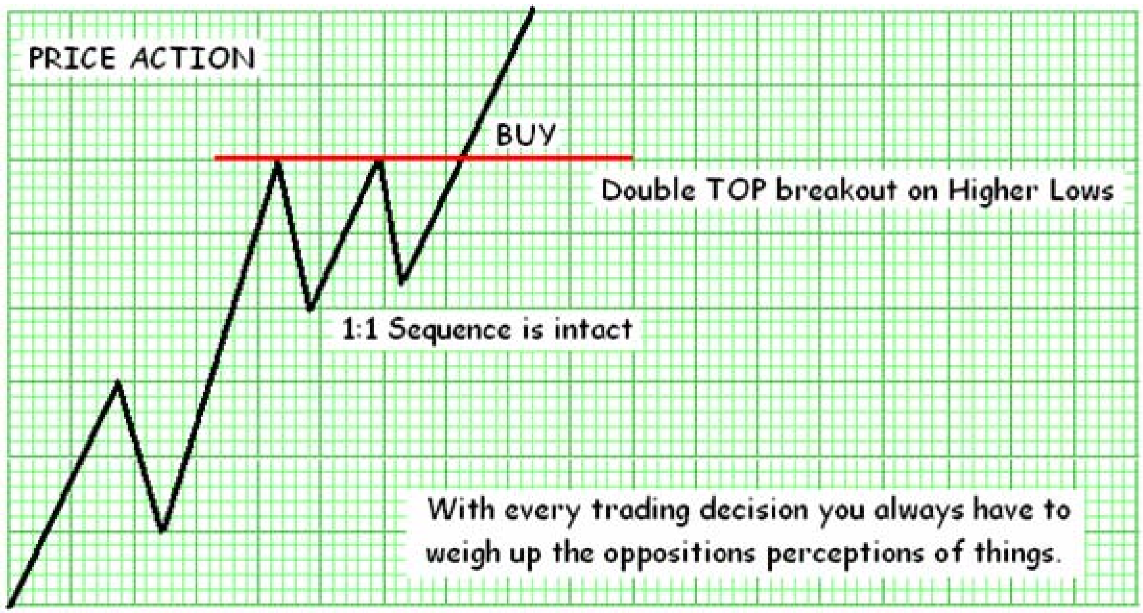
In the case of the old resistance = new support BUY, you should take the insurance of reversing short should the market continue to break down. However, do remember that if the 1:1 is still intact, you may end up in an overlapping market situation. This means you will have to remain on your toes to manage your trade until the outcome of the 1:1 becomes known.

The Double Top Breakout:

This is a simple set up if you can see the trend is overwhelmingly up.

When market gets into this position, they will have the other side (sellers) doubting themselves and they (the sellers) will be forced to move their stops into just above the double top to protect their asses.

You don't need to be a Rhodes Scholar to work this out.


PRICE ACTION
BUY
Double TOP breakout on Higher Lows
1:1 Sequence is intact
With every trading decision you always have to weigh up the oppositions perceptions of things.

Conditions:

The market is progressively moving upwards in stop start fashion with sellers trying to pick a top for the day.
But the buying pressure becomes obvious as the hours pass by. The sellers are trapped and they have no other course of action but to reverse long should the market break the double top.

If the top breaks it will attract a heap of volume and push the market into another area where it will need to find a new equilibrium.

So long as there is not a higher degree RESISTANCE just above or in the vicinity of the breakout level, there is every chance the breakout will run and give you the opportunity to book a nice profit.

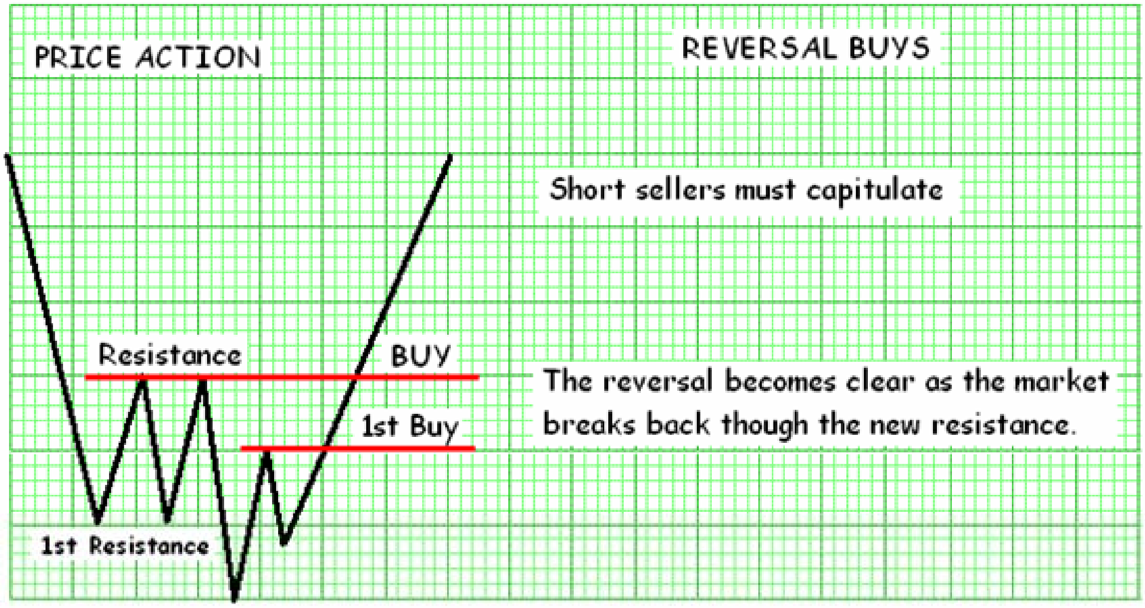
Take advantage when the market offers you this as you only have 6 hours in a day to make your money.

Reversal Situations:

The first sign of a reversal in a down trend is when the market bounces back up through the last break down level and overbalances the previous 1:1 correction in the downtrend. The second sign is when the price breaks back above lower highs from the progression down. Basically these three things are telling you that the selling has been exhausted and any smart seller will capitulate.

If our 5 minute TWS (Slow trend wave) has rolled to the upside after a significant time on the downside, the buy becomes very attractive as the short sellers have to take profits and run for cover.

There maybe times when you can pick the exact low using geometry but the price action always needs to confirm the actions of the buyers and sellers.


PRICE ACTION
REVERSAL BUYS
Short sellers must capitulate
Resistance
BUY
1st Buy
The reversal becomes clear as the market breaks back though the new resistance.
1st Resistance

Reversals can be fast or they can take time depending on how oversold the market has been at the time.

Another way you will know if you have a strong low in place is if you have a volume spike prior to the low and a reversal bar on your chart.

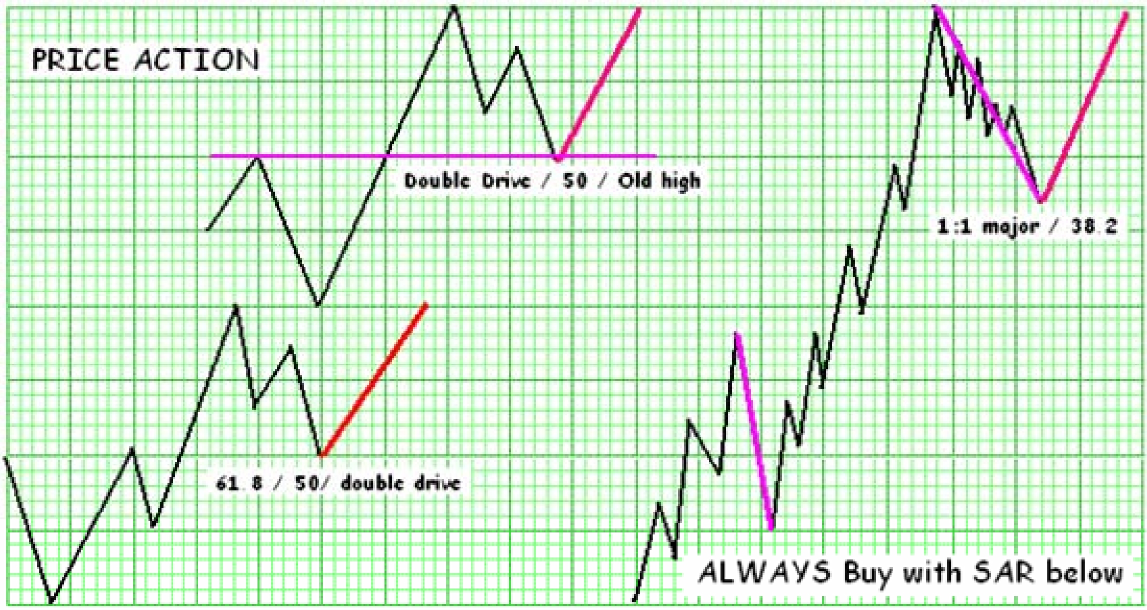
One other thing that sometimes helps is if the price action for the day is somewhere near the extremes of the average daily range. If it is then the reversal has plenty of room to move back up. Nevertheless you always have to consider that a reversal of trend may be reacting to the previous days down trend and will occur early in the new trading day. If this is the case then the break back in trend needs to come back above the opening price.

Extreme Point Reversals back in the direction of the Major Trend:

A number of conditions need to exist so that you can be sure the smart money traders will be with you if you want to buy a low right at the reversal point.

1. The market must be indicating OVERSOLD to traders.
2. It could be arriving at a 50, 61.8 or double bottom on a double drive 1:1.
3. It could be coming back to match a 1:1 of medium degree on a double drive 1:1.
4. An old support pivot from way back could be close to your terminal point where you intend to buy.
5. It could be reaching a level with obvious multiple geometry retrace ratios present and maybe even a prior swing low or high.

Nevertheless whenever you attempt a trade at an extreme point for a reversal, you must take the insurance and have an order to reverse should you be wrong.



There are probably many more situations than those described above that you can begin to recognize but these will come with plenty of experience.

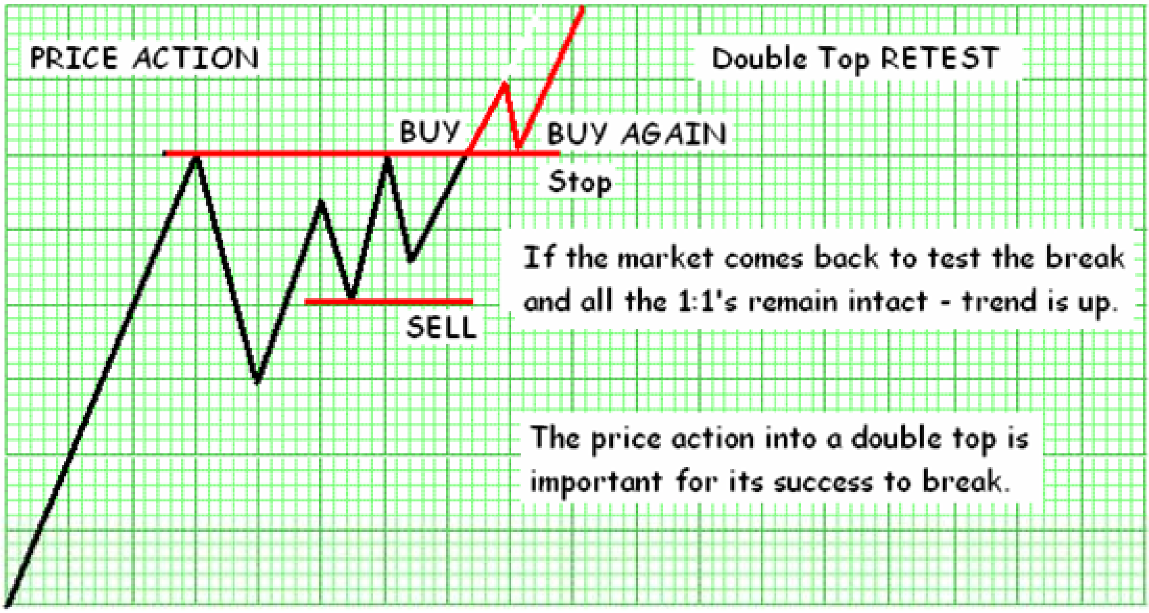
If you want to trade this way and pick extremes in price for a reversal, just remember to go through your checklist beforehand. I know you can do it but the stress involved is as extreme as the buy point.

It takes a while to accustom yourself to the stress you will be subjecting yourself to in this business. It also takes time to understand why these things will work. If you can handle it you will know what I mean.

Double top breakout RETEST:

Double tops are an attractive place to sell for most traders. Sellers will also place exit stops above a double top and the initial breakout may not advance very far.

More often than not if the breakout stalls, the price will return to the breakout level, where it attracts new buyers who now see the breakout level as the NEW SUPPORT.


PRICE ACTION
Double Top RETEST
BUY
BUY AGAIN
Stop
SELL
If the market comes back to test the break and all the 1:1's remain intact - trend is up.
The price action into a double top is important for its success to break.

Some tips:

Breakouts from most minor degree technical levels such as double tops, double bottoms, a 50 retrace or a 61.8 level; often come back and retest the breakout level before they move on.

Breakouts:
If the market hits resistance and does not correct more than the prior 1:1 in the sequence there is every chance it will break through on the next attempt.

This is a strict rule for you to follow:
If the market will not correct more points than a previous correction in any price sequence, it implies underlying strength and the trend remains in force until it does.

Chapter 10

Basic SELL PATTERN Set ups:

This is perhaps the main reason the futures markets are as popular with speculators as they are. You can sell something you don't own and buy it back later. All you have to do is figure out if the price will go down and if you are onto a winner.

The short selling side of the market facilitates all sorts of strategies for physical stock holders, options traders and straight out speculators.

The bonus to the investment world is that the short sellers provide the liquidity to the market. You cannot have a buy order filled on the futures exchange unless there is a willing seller. **Rule number 1. It takes a seller to create a futures agreement.** Without a seller no NEW contract can be originated.

Stock market indices will always go up over the long term because of their inherent nature. Yet along the way they require liquidity to keep everyone honest. Without the futures markets the insiders would have a field day. As a general rule, over 75% of all physical stock remains in tightly held hands. By this I mean that it will never be traded unless a company is taken over by a friendly organization or a predator. Mostly stock remains in investor's hands for the long term and the dividends it provides.

Fluctuations in the stock market are normally modest when economic conditions remain stable. Yet there are thousands of speculators who will bet on whether the market is going up or down and they have devised all sorts of methods to bet on their variety of ideas.

The thing to remember about the stock market is that it has an establishment backing so buyers will come in for more when they think valuations are at low levels. Some will liquidate when they make huge capital gains. But all along the way speculators will gamble on how they see the establishment position.

What I like about the futures markets is that you can take your business anywhere you like and trade it out of a brief case. You don't need employees unless you want extra help. All you need is a computer and a telephone line.

One of the major bonuses with the stock market is the rules of disclosure which surround all the participants involved. A private trader can know as much about a company or companies as the CEO if they wish to work at it.

One of the things about the stock market which always amazes me, are the number of people who subscribe to newsletters forecasting where the market will go. There is no shortage of people prepared to write newsletters and predict what will happen in the future.

Some of them are totally outrageous and receive plenty of air time from the media. One such author, Robert Prechter, is very well known. For the past 3 years, he has been telling people that the S&P500 is going down. In particular, he has been known for saying that the DJIA is going down to 3600. Back in 1987 he had stated that the DJIA was going down to 400. By now, all the sellers who followed his advice must be broke. Then there is another author by the name of Robert Miner, who has a huge subscriber list. In March 2005, he provided a free 50 page analysis to his subscribers on why they should be out of the stock market. This was if they wanted to protect their well being. He reckons S&P was going down below the 2002 low – that's 500 points lower than today. The impact of such advice only helps the market with its liquidity – it sure as hell doesn't have any other benefits.

You can worry about inflation, GDP, the price of oil and how the consumer will manage to keep spending. You can also worry about budget deficit and whether taxes are going to be reduced and all of those things. Nevertheless the major over-riding economic issue with which the stock market is primarily concerned is company earnings. The future market looks to the future and makes bets on how much companies will improve or go backwards. They are generally right.

Yet on a day to day basis the stock market indices fluctuate up and down as a matter of the psychological inputs widely reported by the media today.
It moves from support to resistance, resistance to support and attracts all types of people who wish to bet on the next way it will move.

We have a hard core of professional traders in the futures markets. They control vast sums of money. It is by their actions that the price goes through the fluctuations it does. Professional traders like to sell the market as a rule because the market seems to fall down quicker when it is going down than when it goes up. They also know that if they can get it down sufficiently, they can then run it back up.
You should always look at the market from a 'one day at a time' perspective if you want to remain flexible to the ebb and flow of the money coming and going as a result of the professional traders. Their actions are detectable and the charts will show you if you study them well enough.

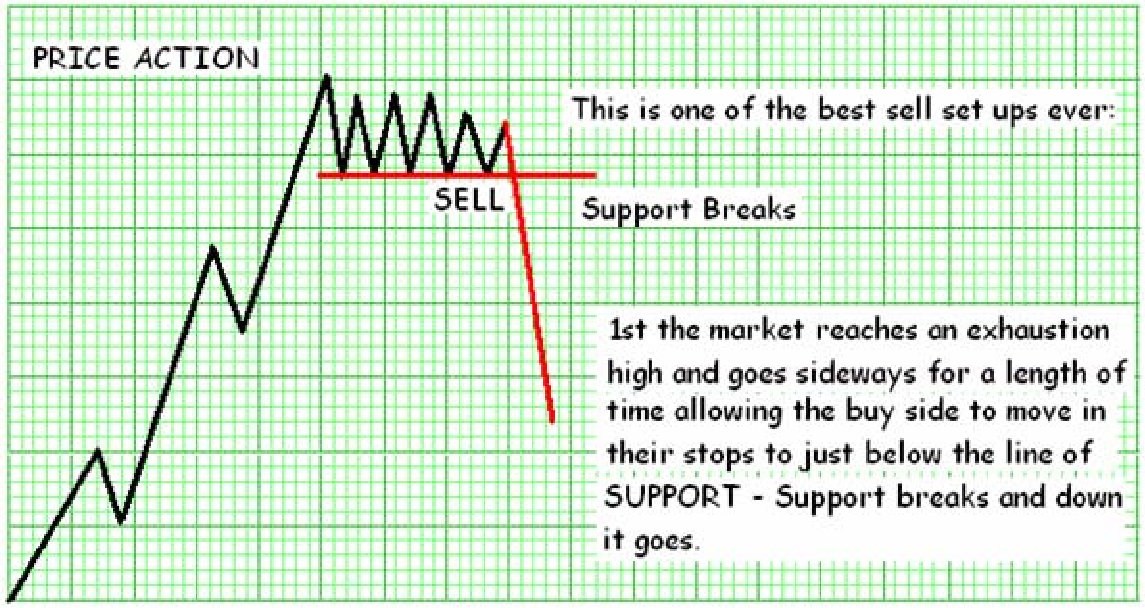
Certain chart patterns hold amazing implications that allow us small speculators to take advantage of easily. All we need to do is learn the chart patterns and apply that knowledge to a set of rules from which we can then trade.

My best sell set ups:

These are strategies you can employ on the intraday charts of the S&P 500 most days when the market has a tendency to go down.

Even in an up trending market there will be days where the market has sharp pull backs and moves quickly to the downside offering counter trend opportunities from which to profit. It will be obvious when you are going to have one of these days.

The exhaustion SELL set up:


PRICE ACTION
This is one of the best sell set ups ever:
SELL
Support Breaks
1st the market reaches an exhaustion high and goes sideways for a length of time allowing the buy side to move in their stops to just below the line of SUPPORT - Support breaks and down it goes.

Conditions:

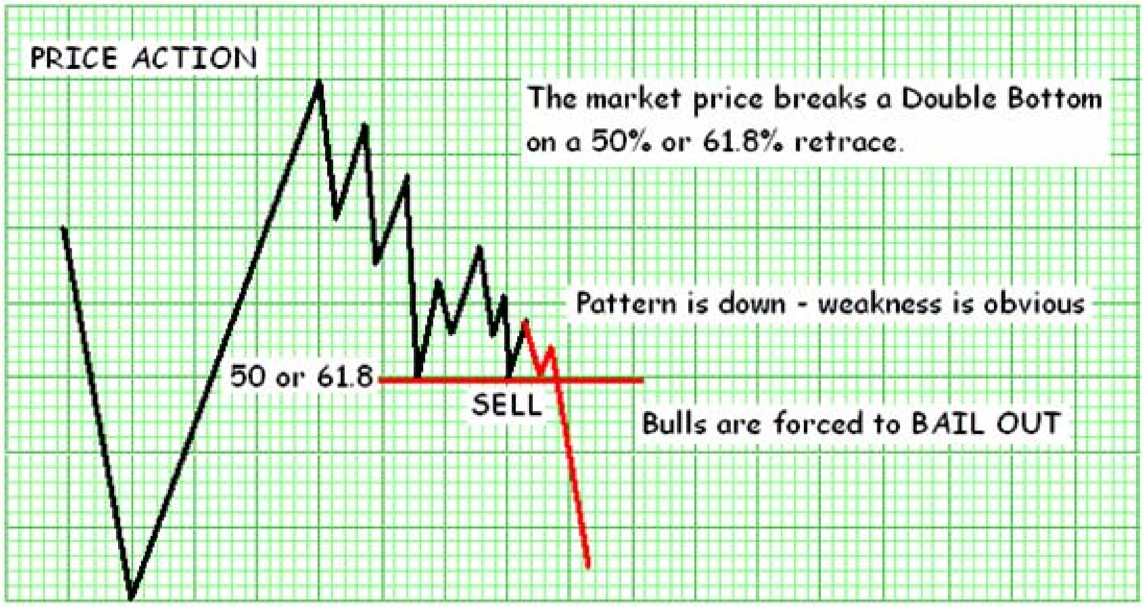
The market actually runs out of new buyers to sustain the upward momentum. Trend indicators reach overbought and begin to roll over. On many occasions the TWS (slow trend wave) will have been going down prior to the final high as it will be diverging with the price action.

The lack of buyers will be obvious from the sideways condition of the market. The volume will have declined as the sideways distribution takes place.

Basically what happens is that the bulls throw in their towel with the market stagnation they are witnessing. Day traders move their stops into just below the support and set the deal up for the sellers to hit them.

Then the “smart money” see the opportunity and hits the buyers in the heart.

The 50 or 61.8 double bottom break down:


PRICE ACTION
The market price breaks a Double Bottom on a 50% or 61.8% retrace.
Pattern is down - weakness is obvious
50 or 61.8
SELL
Bulls are forced to BAIL OUT

Conditions:

Technical buyers will know that the 50 or 61.8 is an important support level. Most will recognize the fact that trouble lies ahead for them if the market breaks below the defined support. Sellers will know to seize the opportunity also.

If the second test of the low fails to attract good volume and does not rally enough buyers will throw in the towel or plan to reverse short.

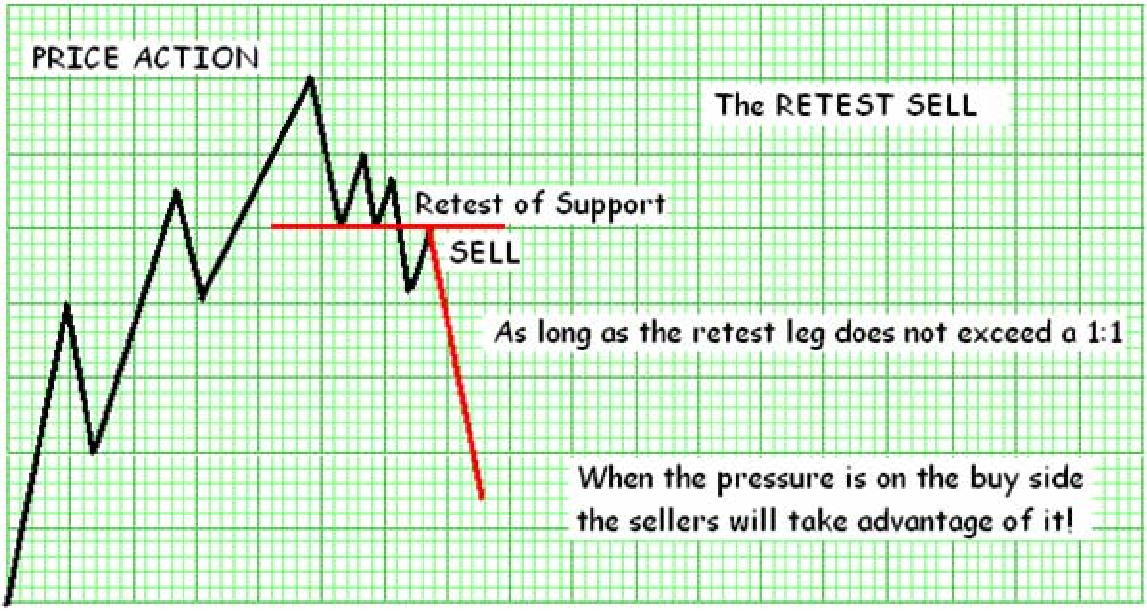
Situations such as these get traders thinking of their own self preservation. This is more so in the short term than the long term. Nevertheless they are creatures of habit and will only see the main option ahead for them – get out or lose money!

In this case, we are dealing with the effects of human emotion, greed and fear along with the fact that everything they know is working against them. Moods can change very quickly when the tide turns and if you are prudent enough to recognize this in advance, you can take advantage of it.

Just remember that the support at the 50 or 61.8 may have been generated from hedge fund computer orders automatically placed in advance. The computer has no idea of what is right or wrong. All it knows is how to either buy or sell when and where instructed. However, the computer also knows how to reverse short if the support level they are buying off fails, so this will add more volume to the downside.

Retests of support just broken:

These are particularly good places to get on board a resuming downtrend if the conditions are right.


PRICE ACTION
The RETEST SELL
Retest of Support
SELL
As long as the retest leg does not exceed a 1:1
When the pressure is on the buy side
the sellers will take advantage of it!

Conditions:

The trend indicators need to be pointing down in the minor degree and the support base needs to look like it was a solid support before it broke.

If the break of support has reasonable volume but does not follow through it will attempt to come back up for a while but you should never give it more than 15 minutes to make the retest.

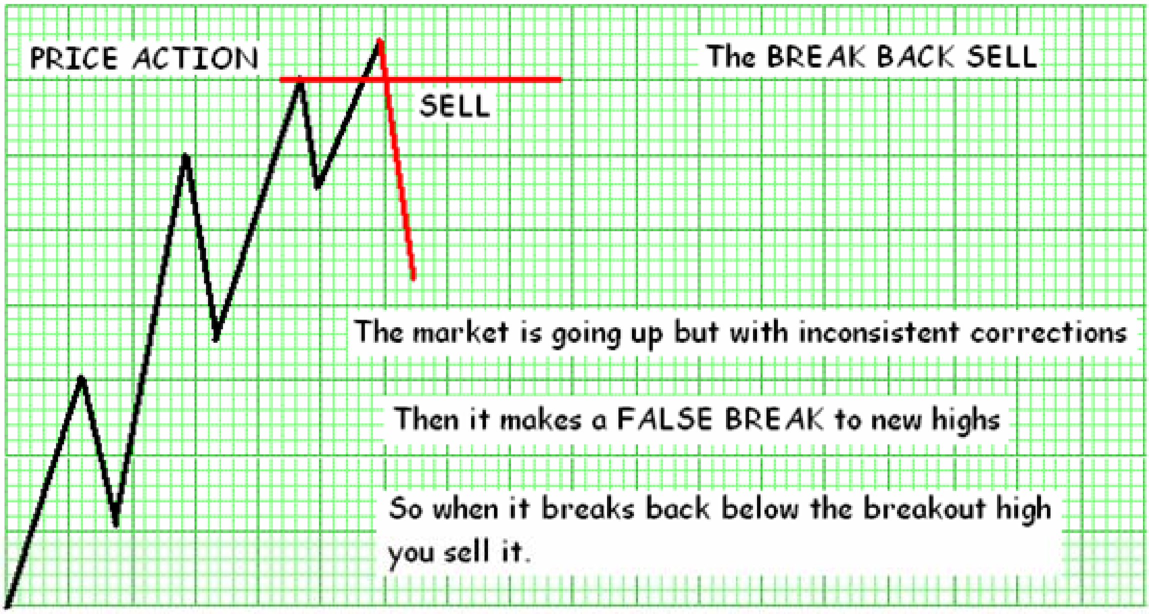
If it hasn't started going back down by then, it is not a good trade. Personally I would walk away from it.

Price action has a body language all of its own. You have to feel the pressure on the other side of your position to know when you are correct. If you can't feel it with the knowledge you now have about the market then you are only guessing.

In this business, guessing is not a good policy; you are better off out of the market waiting for new evidence to make a trade.

This is a policy I follow most of the time. I am always assessing the relative indicators so I know what they have and what they haven't got up their sleeve.

The BREAK BACK SELL trade:


PRICE ACTION
The BREAK BACK SELL
SELL
The market is going up but with inconsistent corrections
Then it makes a FALSE BREAK to new highs
So when it breaks back below the breakout high you sell it.

Conditions:

When the break back occurs, your trend indicators should have been registering overbought on the reversal for the short trade to have more credibility.

There is no reason for it going up because at this point, the volume is not agreeing with the direction.

This places the bulls in a predicament which means they will capitulate. The breakout is false if it is not on volume and this may have occurred just before some fund hits the market with a huge order causing the break back to occur.

So stay alert and if you are monitoring all the respective charts, the opportunities that are out there will soon become obvious to you.
When the market can get everyone around the wrong way and then reverse, you should get a good move back the other way until some equilibrium is reached.

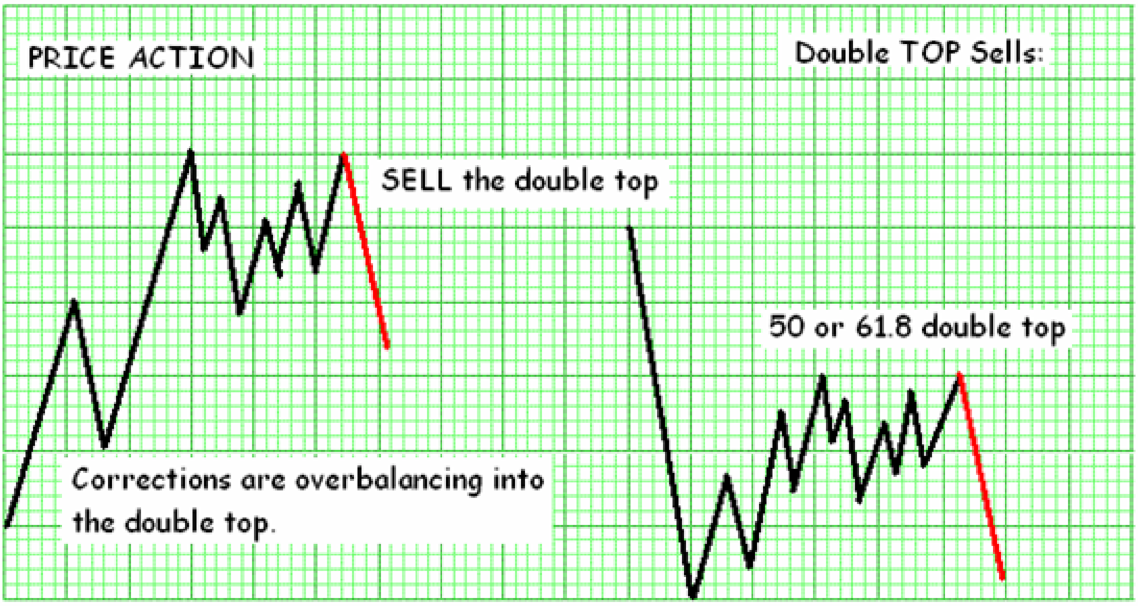
Just remember that most of the time 90% of the people trading will be caught around the wrong way when something like this happens. Mostly they will have to learn from it, so you should learn how to deal with it beforehand.

The only way they can deal with it is to get out or reverse if they have any idea at all on what is the best strategy for them at the time.

Double TOP sells:

These are regular occurrences in the market because traders see the RESISTANCE well in advance. Nevertheless you need to determine if there is any reticence on the part of the buying side before you sell a double top.

The best way to determine the chances of a double top reversing the market is if the market cannot sustain a forward movement beforehand where it takes smaller corrections as it heads towards the double top.



The importance of the price action going into a double top is extremely important.

If there is a tendency for the market to hesitate prior to the double top by attempting to sell off earlier, then the chances are the corrections will be a little larger before the double top finally comes in. There could be a false break at the double top but it should be contained within 2 ticks. If not then reverse long but only to recover your initial risk.

The volumes prior to the double top will be obvious to you if you look closely enough. You should be able to see by low volume going into a double top if they are going to sell it there. When a market reverses on a Double top it will become very clear that the sellers are dominating allowing you to manage the trade from that position.

As a double top becomes clearer to the less informed it will attract more selling pressure and this is where your focus should remain; increasing selling volume.

Chapter 11

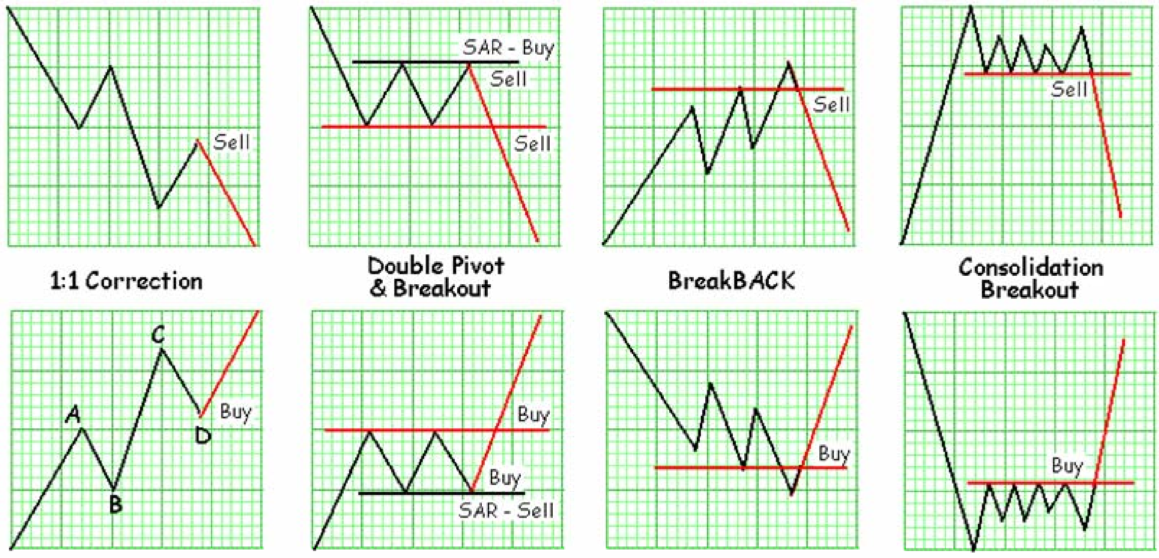
Price Action Trading:

Price Action trading is about taking advantage of the opportunity when it presents itself; nothing more and nothing less.

Now this is not rocket science and everyone can learn to do it. The simpler you make it the easier it gets. If you were just to follow a WAVETRADER - TWS (Trend Wave Slow) on a 5 minute chart and take BREAKOUT TRADES in the direction of the TWS direction you would find your winning trades would far out number any losses. Using the tight stop rules of engagement losses are kept to a minimum and the winners can sometimes be run into substantial gains.

My advice to new traders is to sit in front of the screen for a few weeks and get your mind around this simple concept before you even contemplate taking any trades.

SIMPLE PATTERN ENTRIES:


Sell
1:1 Correction
SAR - Buy
Sell
Sell
Double Pivot
& Breakout
Sell
BreakBACK
Sell
Consolidation
Breakout
C
A
Buy
D
B
Buy
Buy
SAR - Sell
Buy
Buy

PRICE ACTION PATTERN ENTRIES

These are some of the basic patterns that will form in the intraday 5 minute bars. These patterns will give you a specific entry level to place orders in advance.

You can use these patterns in conjunction with your 5 minute TWS indicator acting as your directional filter.

If the TWS is moving in an upward direction you take the BUY signals. If the TWS is moving in a downward direction you take the SELL signals.

Identifying the patterns:

During the trading day you should be watching a 5 minute ES day session chart and either a 15 or 60 minute (Day or Globex chart). You can set up screens to switch between the various time frames. You can easily identify the patterns and the likelihood of them being successful just with the Wavetrader III running in your eSignal on each time frame.

Below your charts you can set up window panes to monitor indicators such as the slow stochastic, DMI (directional movement index), volume bars and OBV (on balance volume).

If you really want to cover all possible contingencies I would suggest you have the Wavetrader III and the WT-ES Assistant.

If you don’t have the WT-ES Assistant you should also run charts for the OEX and the SPX in 5 minute and up to daily in increments of 5, 15, 60 and daily time frames for confirmations of the direction you will be trading in. A lot of the time the OEX will lead the futures by breaking out or reversing in advance.

I would also recommend you watch Bloomberg to keep you informed, as often some news event will change the market mood and direction and it is better to know the reason why rather than to just see it happen on your charts.

Bloomberg often has interviews with the pit and these guys are standing on the front line. They can see who is buying or selling from the major trading houses. They become a sort of a psychological indicator as the day unfolds.

If you start off with the simple issues to first gain your confidence, then as the weeks and months pass by the sheer fact of your screen time and observations will develop your knowledge of the repetitions that continue to repeat time and time again.

The recipe for success is patience and only taking trades when everything is in your favor. When things are not clear it is better to be sidelined.

Overtrading is the greatest threat to your eventual success using my methods. When everything stacks up the right way take the trade, when it is not clear stand aside.

Over time you will understand that restraint is better even if you miss something.

TO START THE DAY for ES trading:

Before the day session begins you need to have all your charts prepared with the MOB levels (MAKE or BREAK) marked clearly on them. You don’t want to be playing catch up all day.

You need to have observed the Globex trading hours as any new high or low in Globex may have reversed on a geometric level that the market will take into account when the day session begins.

Always bear in mind that on any new day the opening price has the potential 50% of the time to be the high or low for the day within a couple of points. On any day following a KEY reversal day, an OUTSIDE reversal day or a DOJI day the odds are magnified considerably.

If the market opens with a small GAP from yesterday’s close the chances it will fill the gap in the first hour is always better than 50% unless the prior day was a V day and the market is coming off a major GEOMETRIC support or resistance, one that is obvious to the medium or longer term players; in which case you could have a breakaway gap and just head off in the same direction the market was going in at the prior days close. If the market sentiment is lopsided the market may never look back. Usually after a V day the previous session finish will contain a correction and this will be your benchmark 1:1 to work with in the earlier part of the day.

Generally speaking at the beginning of the day the market is more likely to follow the same path it was going in the last hour of trading the day before.

When the market opens and breaks a technical support pretty much straight away that would set a bearish tone for the morning session. Similarly if the market opens and breaks up through a technical resistance it would set a bullish tone for the morning session.

Always bear in mind that the trend is your best friend and it is not a good idea to take positions in a direction that is not obvious to the majority unless you have some major technical evidence that the market would attract the “big boys” to reverse the other way.

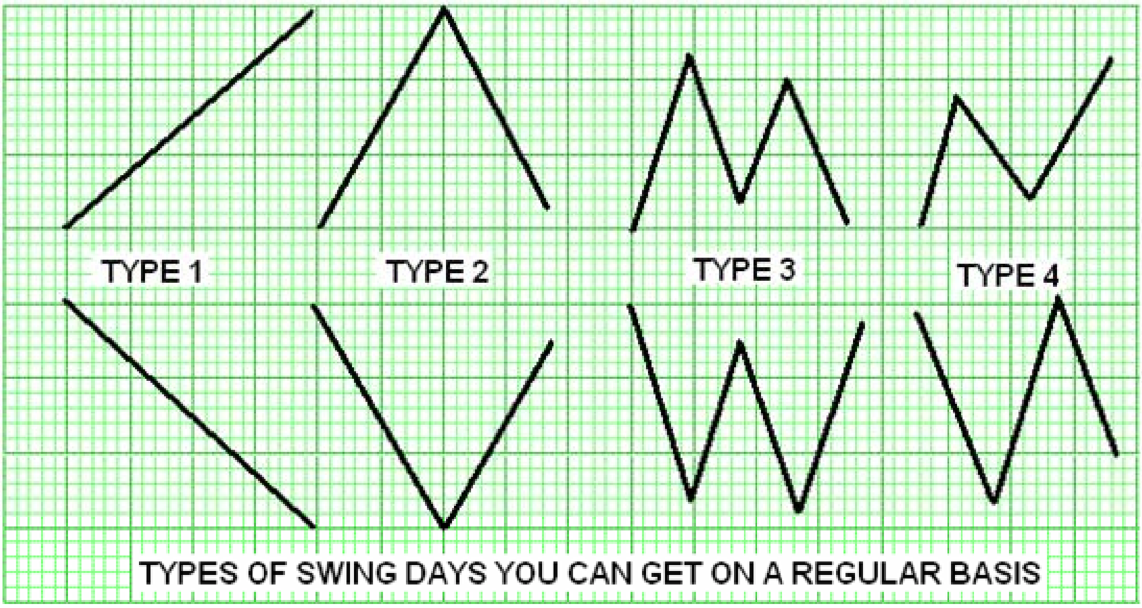
Once the market has established a direction in the first half hour, use the 1:1 correction rule to monitor its strength.

If the market is not RANGE BOUND each trading day should offer you trading opportunities on 3 or more occasions.

Getting off to a good start is always helpful for your confidence levels. And when you have a good profit you can go away for the day and leave them do whatever they want to do.

The point of trading is to make money, once you have made money human nature takes over and you will have a tendency to begin gambling, thinking that you can do no wrong; Its a big mistake made by the best of us.

Market days generally conform to 4 different swing patterns in the larger daily pattern.



The chances of getting a TYPE 1 day; either up or down all day is about 5 to 1 against.

TYPE 2 days; are V days and they are about 5 to 1 against and will mostly follow type 1 days. The majority of days will be TYPE 3 days, where the swings take on the form of a W or M which can be flat or stretched in a bias of either up or down.

TYPE 4 days; are N days these can be as common as TYPE 3 days. You should have a good idea what type of day you are in by 2:30pm ET with an hour and a half to go. The 3rd swing could also be a very strong impulse move.

The thing to remember always is that a new swing of larger degree will be confirmed in progress once the previous swing begins to overbalance its smaller degree 1:1's. Swings in type 3 and 4 days could terminate on 50, 61.8 and double tops or double bottoms of prior swings in similar degree.

If you are in a type 3 day the 4th swing usually comes in the last hour of trading.

There are also other days where the market goes up and down in a three legged pattern and closes back where it started the day. Usually a day like this will move downwards or upwards from its opening price, make some extreme level and then move in a trend for the better part of the day to exactly the same distance above or below its opening level in the opposite direction. It will then move backwards after 3pm to finish back at the opening price level by 4pm. If you can grasp all the possibilities it will make your trading life a lot easier.

For traders who wish to take time into account it is wise to consider the “on the hour” time slots as potential reversal zones as you have a lot of program traders in the market that come together at these times based on the patterns I have shown you and they think they can swing the market just on what they do acting in concert together. These guys work for the big trading houses so don’t take what I am saying lightly.

The biggest advantage you can gain as a trader is to “nail” the exact high or low for the day and then you know what you should be doing there after.

You will need to understand the geometric rules traders use to “nail” the exact highs and lows for the day but it is not an impossible task if you understand the market flow.

Everyday has its own peculiar high and low – does not even matter whether it is a type 1 day from morning to end. As the market moves along it tells you a story by the way it handles the implied resistance and support levels it has to negotiate along the way.

If you get a daily high or low form early in the day – say by 11am – you can plan a little better as you move forward. If you identify a daily low or high before 10am it will often produce a good move and you maybe able to milk it for a few hours or even all day.

Whichever way the day is going you should have a good idea by midday whether it is worth hanging around or just going down the pub for the afternoon. If there is going to be any action it should be obvious by then.

The longer you are in this business watching what is going on, on a regular basis, you will get a feel for it. Some people will never get a feel for it granted because they will never understand what motivates the buyers and the sellers. So your main objective with trading is to understand the types of things which motivate these guys to risk their money on a trade. If you can do this it becomes easier to trade. Always ask yourself the question? What would I do here?

IF YOU WANT TO BECOME A PROFESSIONAL TRADER:

You first have to make a commitment to learn everything there is that needs to be learnt about the market you are going to trade.

If you want to take the easy way out and listen to all the news letter writers about the place, those idiots that make it sound like anyone can make money trading. Or those guys promoting the black box stuff, you may as well go and get your money out of the bank and burn some of it to start your next BBQ; you will get more fun out of doing that.

Trading is a business and to succeed and succeed well, it will take knowledge, understanding and hard work.

If you wanted to become a brain surgeon they wouldn't let you operate until you passed all the necessary examinations and then there would be no guarantee you would make a success of it.

Well trading is a lifestyle as well as an occupation and before you can succeed at it; it needs to be in your blood. You need to eat, sleep and live it. When you can do that it is not work; it is fun.

Trading becomes a joy when you know what you should be doing to make money. You are never scared of taking a position under the right circumstances and when you do you have every right to believe it will work.

There will be times when things don't go according to plan, but I bet if you go back and have a look at them after the event you will be able to judge where and why you went wrong.

Then you will take note to consider that situation a little better in the future.

Once you learn and get to move along in steps of greater understanding you will improve. If you think you know it all before you know fuck all then you are your own biggest danger.

The point is that of all the trading systems and all the indicators available to traders they will all tell you the same thing in one way or another. Some quicker than others, but that is all the rest of the savvy traders have to use as well.

There is no holy grail as some of those idiots pushing planetary cycles would have you believe. There are only buyers and sellers and the methodologies they use and rely on

THE THING ABOUT PRICE ACTION:

An old associate of mine wrote a book years ago, “Listen to the market”. You don’t need to read the book but the title says it all.

Price action will tell you who is, or which side is on the right side of the market activity and who has to protect their ass. Ass protection is a great motivator for action, especially when you need to save it! Your ass I mean.

So markets go up and down. They rarely stand still as someone is always left in a position where the shit is hitting the fan for them. Sometimes at a greater rate than their brains can assimilate.

When you can understand what it takes for the market to do to unseat the better percentage of them the market will run in one direction or the other and you can make a good profit. Then all you need do is sit and wait until it puts one side or the other in a similar position again and get on for the ride again, and again, and again.

It is not that difficult if you follow my plan. You can scalp around with all the geometric stuff along the way but when the shit really hits the fan big time that is when you can capitalize on all the effort you have put in just to be there when it happens.

Every journey begins with the first step and as the steps get moving against the wrong side to that direction they are forced to increase the momentum as they run for cover.

It’s all about the weak and the strong, or you could say it is just about the power of money. Who cares what it is about? I don’t, it was just a way of life for me.

For 30 years it has suited me to be in it and now I am retiring, but before I do I am giving anyone who wants it an education and a tool box to begin living it for themselves.

The markets are not going to go away and there is always going to be people, groups and conglomerates who will push one side to the edge either hour by hour, day by day or week by week until they surrender their money.

The brokers will even help people lose their money if you want to trade on broker advice. How can some guy sitting in an office with no trading experience even contemplate to know where the small moves in the market will go? Usually those guys are losers or they are employed and paid to push for commission on sales volume, hence they have a story for everyone.

The Trend Wave Indicator:

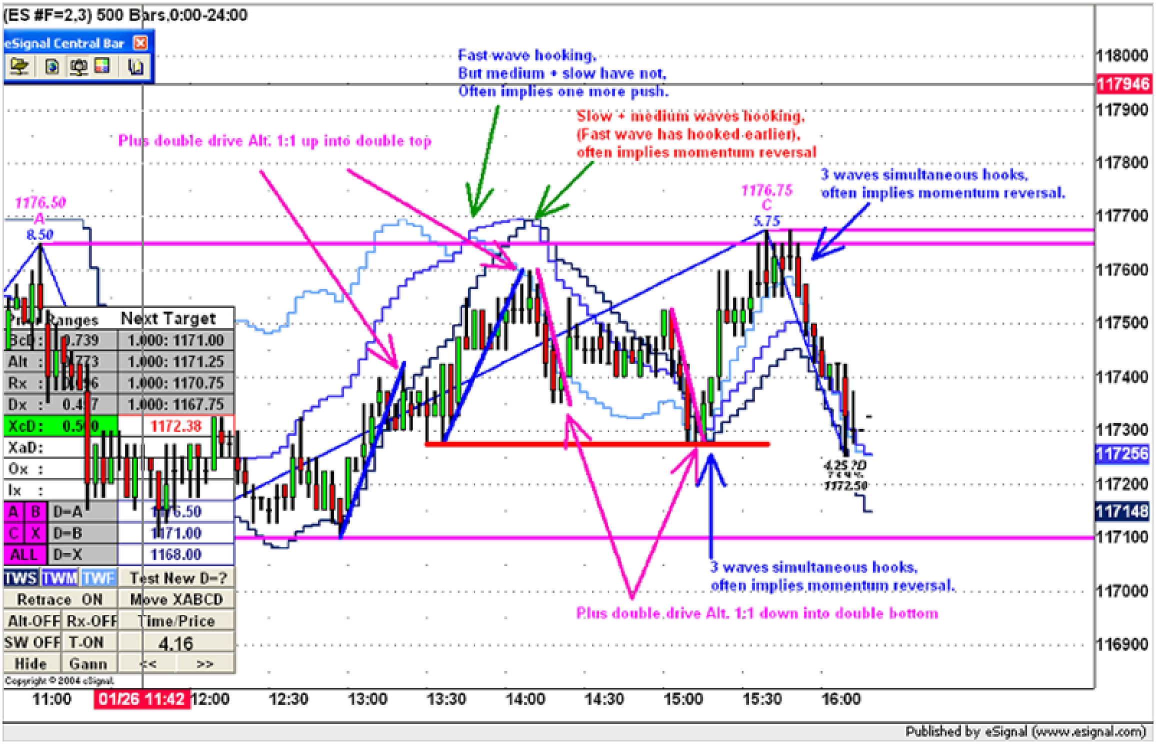
I have an indicator that reacts quickly to a momentum reversal; this is my TREND WAVE INDICATOR. The pages included here were written a couple of years ago and are reprinted from some previous seminar notes.

I have been studying the Trend Wave Indicator with intraday data now for somewhere near on 4 months. I used to use it only on daily price data until Yigit programmed it into the original WaveTrader 2004 eSignal software.

I have a couple in my TTW group who have done extensive research with the intraday data and swear to its accuracy in confirming momentum reversals at intraday highs and lows. They monitor the Trend waves on both a 1 minute and a 5 minute chart.

Tom & Valerie tell me nearly everyday how good it is and how well it fits into their trading plan. Below I have one of their charts to describe the way they use the TW routine.

Tom reckons that the only time he loses on trades is when he is going against the TREND WAVE indicator. I have also found the same to be true. The trend wave is starting to become like a set of traffic lights to me now.


Fast wave hooking,
But medium + slow have not,
Often implies one more push.

Slow + medium waves hooking,
(Fast wave has hooked earlier),
often implies momentum reversal

Plus double drive Alt. 1:1 up into double top

3 waves simultaneous hooks,
often implies momentum reversal.

3 waves simultaneous hooks,
often implies momentum reversal.

Plus double drive Alt. 1:1 down into double bottom

(ES #F=2,3) 500 Bars,0:00-24:00
eSignal Central Bar
1176.50
A
8.50
1176.75
C
5.75
4.25
1172.50
Price Ranges
Next Target
BcD : 0.739
1.000: 1171.00
Alt : 0.773
1.000: 1171.25
Rx : 0.696
1.000: 1170.75
Dx : 0.417
1.000: 1167.75
XcD : 0.500
1172.38
XaD :
Ox :
Ix :
A B D=A 1176.50
C X D=B 1171.00
ALL D=X 1168.00
TWS TWM TWF
Test New D=?
Retrace ON
Move XABCD
Alt-OFF Rx-OFF
Time/Price
SW OFF T-ON
4.16
Hide Gann
<< >>
Copyright © 2004 eSignal
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116900
11:00
01/26 11:42
12:00
12:30
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14:00
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15:00
15:30
16:00
Published by eSignal (www.esignal.com)

Here are some quotes I saved from Tom over the past months.

“I watch price actions, and when the price action is impulsive down I would short retracements, when price action is impulsive up I would buy retracements, and that's the basic strategy, and of course you have to apply all the other knowledge that you learn from Bryce.”

“…..if you master Bryce's trading strategies you can win consistently too. We have not had a losing day for over 5 months now by simply applying Bryce's strategies. We take a minimum of 10 ES trades per day, so our worst day on our ES trades were + 5.00 for the day.”

Trendwaves really works for us, but of course it is not 100%, but we find that it is generally at least 80%. However, if the 1-minute and the 5-minute trendwaves point in the same direction, **with very steep slope (sharp angles)**, we usually get over 95% winning percentage with big price moves.

As always, please do your own test studies on the waves.

Notes on Trendwaves:

1. The 1-minute trendwaves will give you the price swings size of between 1.50 point to 2.50 points on the ES. Follow the direction of the slow wave.

2. The 5-minute Trendwaves will give you the direction of the bigger swings, 2.50 - 5.00 or more points on the ES. Follow the direction of the slow wave

*** If the 1-minute waves are pointing in the same direction as the 5-minute waves, with steep slope, then you would have a very good chance of winning with a bigger price moves.

Remember...trendwaves have to be used in conjunction with Bryce's TTW trade setups/entry rules to get the good results.

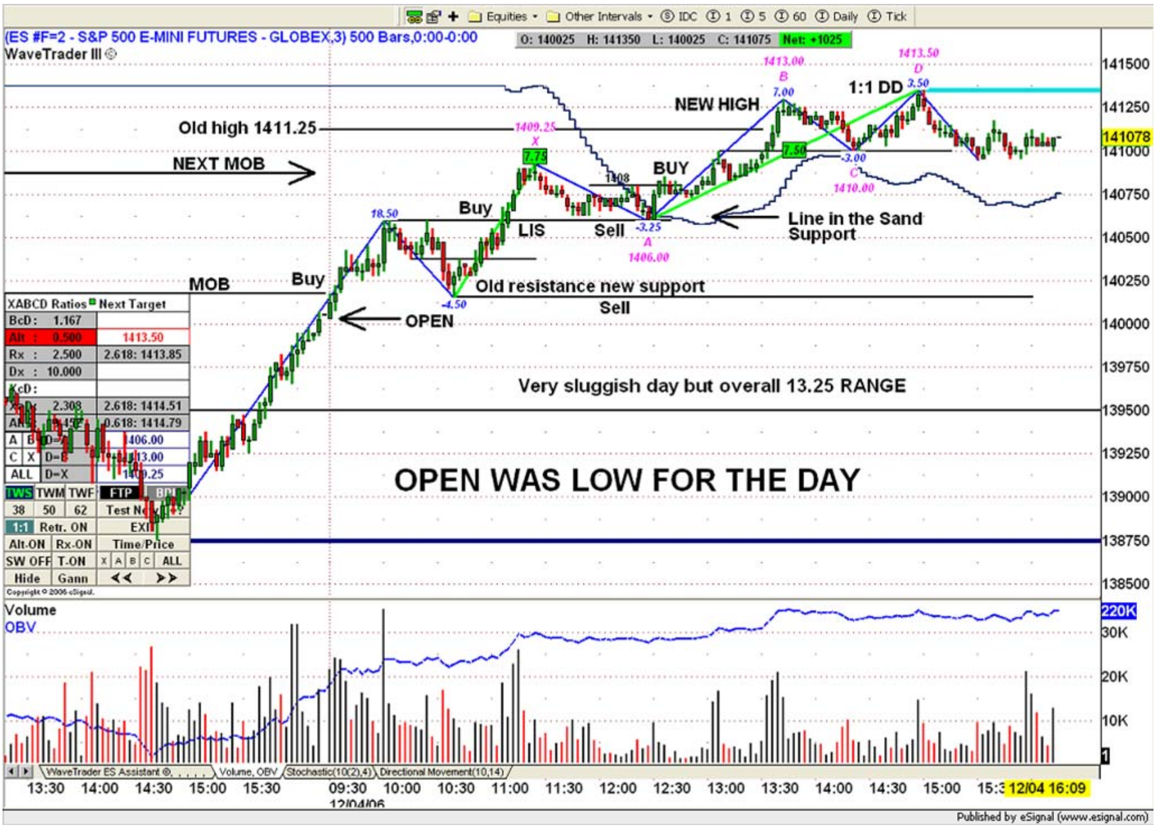
:-)))
Tom

Thanks for the insights Tom.

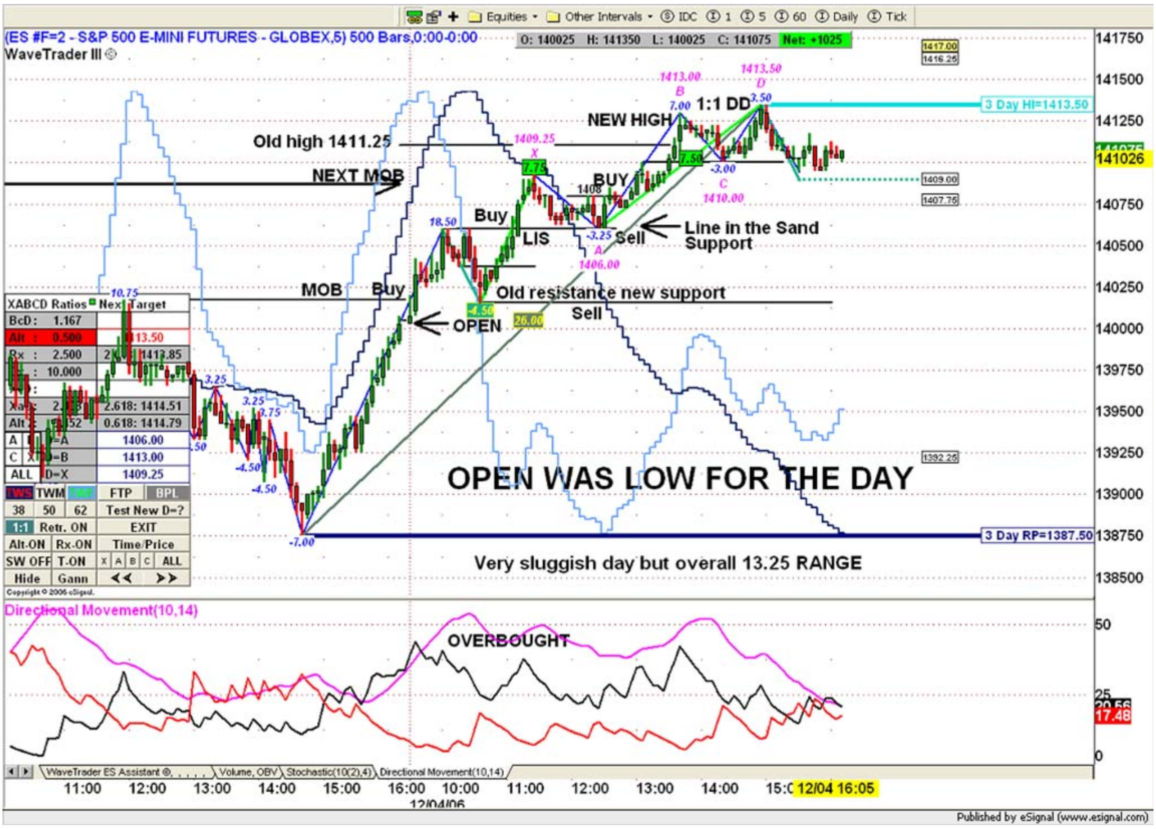
I thought Tom’s explanations cover it all so you can thank him for it.

A TIP:
When you encounter a sluggish market it is a good idea to reduce your time frame down to a 3 minute bar chart for the purposes of the TREND WAVE INDICATOR. The 3 minute will track the bar activity a lot closer than the 5 minute which could diverge all day.

3 minute chart:



5 minute chart:



Chapter 12

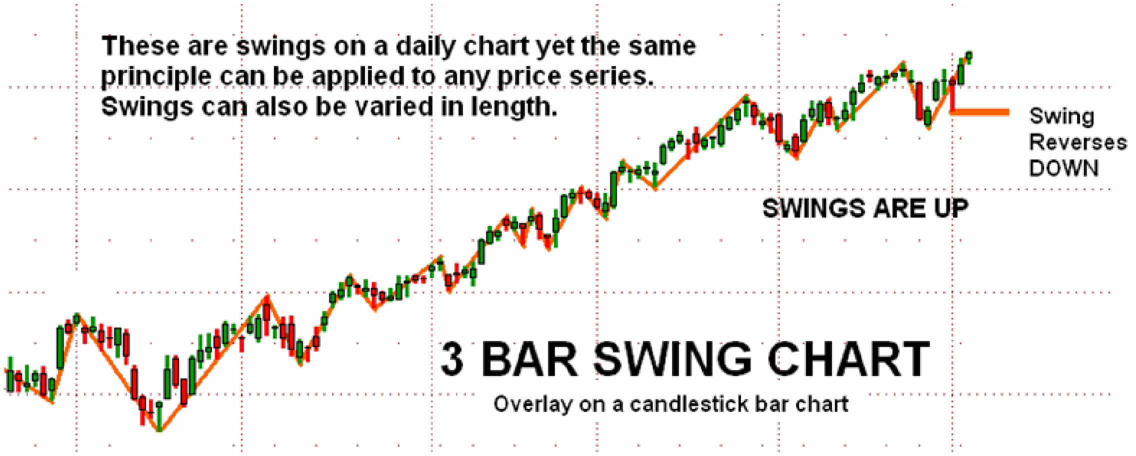
Swing Charts – 2 & 3 day Balance Points:

Swing Charts are a Gann concept for determining trend using only the price action of the market.

On any bar chart of price movement each bar has a high and a low. When you string a bunch of bars together as they unfold they will give the appearance of either going up, down or sideways.

If you are working out the swing direction you take the highest high bar and the lowest low bar over a period, lets say 3 bars, and the next bar is either inside that range or it will breakout either below or above the prior 3 bar range. If the price of the next bar moves higher the swing will be UP. If the price of the next bar moves lower the swing will be down.

Before the next bar you take the high and low range of the current 3 bars, and follow the same analogy as the next bar forms. As you move along from bar to bar the swing will be either up or down and this implies the trend is either up or down.



Before all the sophisticated indicators were invented this was an easy mechanical way to look at your chart and say, yes the trend is up or it is down!

The concept is that Price Action reveals all and the truth is you don't need all those new fangled sophisticated indicators other than to reveal when the other players are seeing signs that the market price is technically overbought or oversold.

The balance point concept is when the price comes back to more than 50% of the current swing in progress as that could be suggesting weakness in trend.

The 50% level of the 2 and 3 day market range is an important level to monitor when considering the current market position and trend.

The 2 and 3-DAY RANGE:

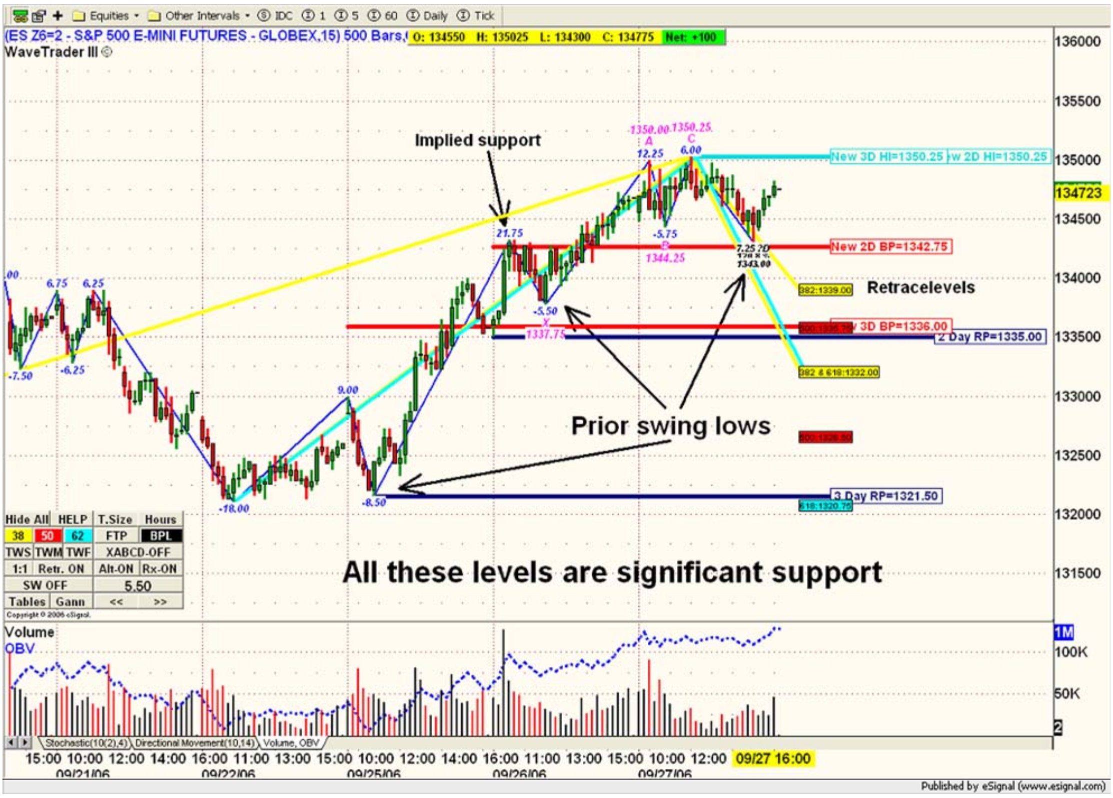
The past 2 or 3-day trading range are good to focus on for a larger degree view if you are an intraday trader. Everything else is most likely to be redundant to your immediate term trading, unless you are close to a major chart level on a daily or weekly analysis.

The 50% levels are the BALANCE POINT Levels or EQUILIBRIUM POINTS for the market activity at any particular time.

My standard rules are: -

1. When the price in the currently traded range is above the 2/3 day BALANCE POINT it is in a STRONG POSITION.

2. When the currently traded price is BELOW the 2/3 day BALANCE POINT the market is potentially in a WEAK POSITION.



Implied support

Retracelevels

Prior swing lows

All these levels are significant support

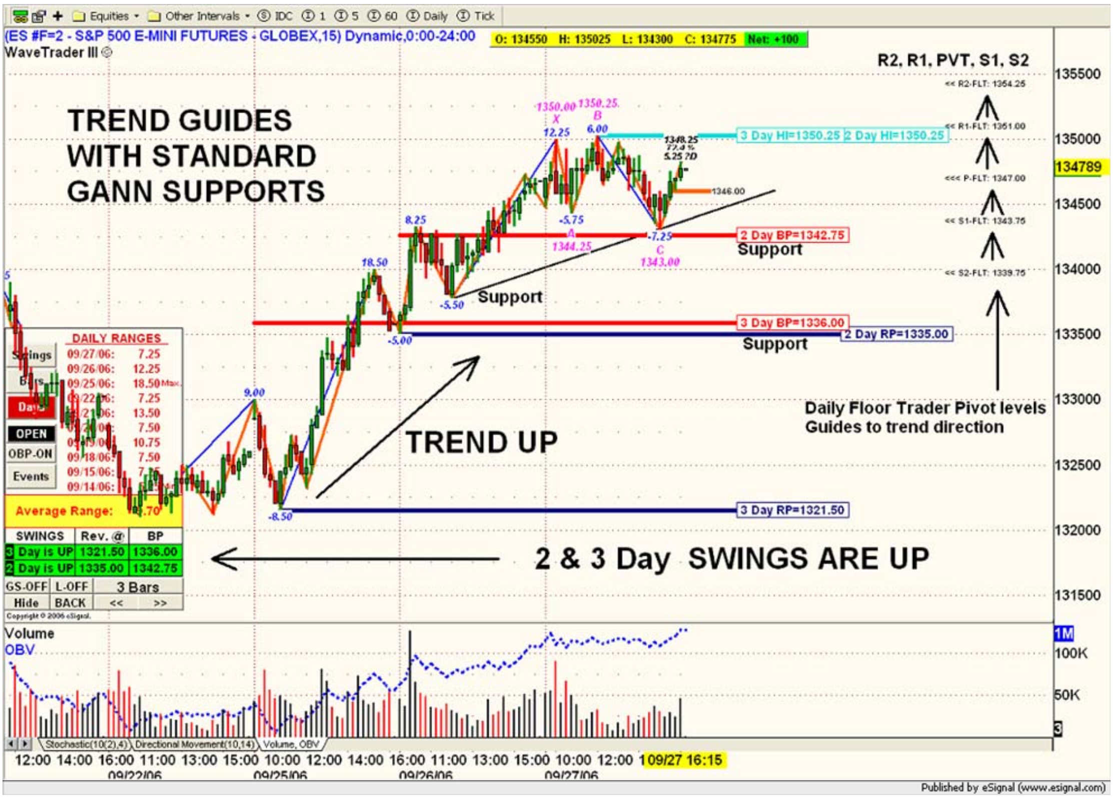
In most strong UP trending market moves the price retracement (corrections) seldom come back below the 50% level of the 3 day range.

If they do then the trend degree of wave series in progress has moved to a higher degree wave movement in the current correction. A 38.2% of the 3-day range is far more common and indicates a stronger market situation.

You should also consider a 62% retrace is possible if a correction exceeds 50% in a weaker overall market tone.

The 2 and 3 day SWING CHART:

The 2 and 3 day swings can be used as a price indication for the ongoing trend.



DAILY RANGES

09/27/06: 7.25
09/26/06: 12.25
09/25/06: 18.50 Max.
09/22/06: 7.25
[illegible]/21/06: 13.50
[illegible]: 7.50
[illegible]: 10.75
09/18/06: 7.50
09/15/06: 7.[illegible]
09/14/06: [illegible]

Average Range: [illegible].70

SWINGS	Rev. @	BP
3 Day is UP	1321.50	1336.00
2 Day is UP	1335.00	1342.75

WE CAN LEARN A LOT from the 50% BALANCE POINT RULE:
You can even formulate a trading plan around it as the 50% level of any range is the most watched technical level professional traders are focused on.

Trader's will buy and sell off it all the time.

As you progress with this manual you will see the number of examples I have given where the market either stopped dead in its tracks on a 50 or it broke through and then the 50 level becomes the support in an uptrend or resistance in a downtrend.

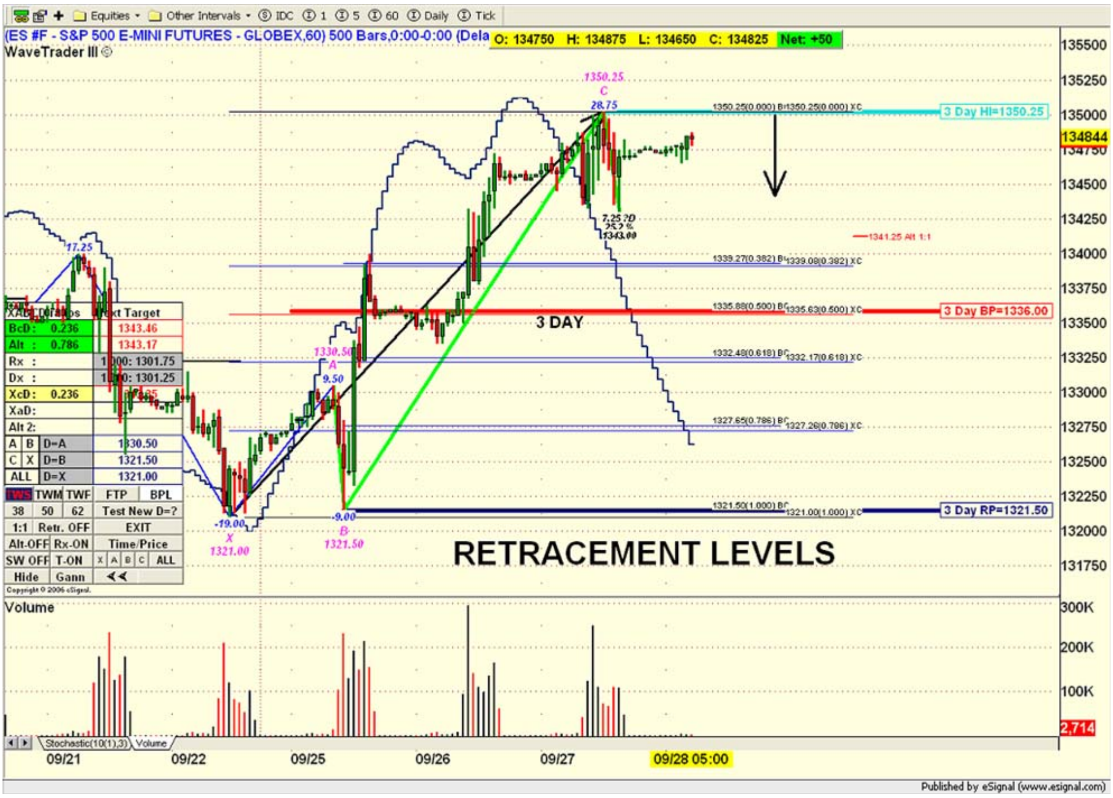
If you are looking for a support to hold at a 50 level it is going to be a stronger technical level if something else such as a 1x1 lines up with it, the same goes for resistance in a downtrend. You will see what I mean as we move along.

The thing to remember always is that if the market takes out the 50 easily then the next solid point of support or resistance should be the 61.8

The trend will always become clear to you when the 50 either holds or breaks and then you can trade with confidence because you will know that every other professional trader has seen the same thing and will act on it.

The majority of professional traders are only looking at the 50 and then the 61.8 or the 38.2. These are not going to explain the market geometry all the time but once they are not working traders will revert back to old tops and bottoms and other less important tools such as trend lines or indicators to establish an opinion.

My point to you is that the 50 gives you a clear insight into the trend in progress and you must learn to use it because it is as important as a hammer is to a carpenter as far as we are concerned.



These are the standard geometric tools we use to judge where to buy or sell.

Chapter 13

Floor Traders Pivot Points:

Now these levels have nothing to do with the normal approaches we follow, nevertheless we need to know about them and where these FTP levels are each day.

I am not going to explain how they are calculated as the WaveTrader software will do that for you automatically.

All it is necessary to say is that these levels are derived from the previous days trading range taking into account the daily high, low and closing price.

Basically the algorithm they use has 5 levels:-

1. FTP Pivot which is the fair value point calculated for the next trading day.
2. R1 which is resistance level one.
3. R2 which is resistance level two.
4. S1 which is support level one.
5. S2 which is support level two.

Most days the market will trade up and down between these levels. The floor traders will supply liquidity to the market flow based on where the market is trading within these levels.

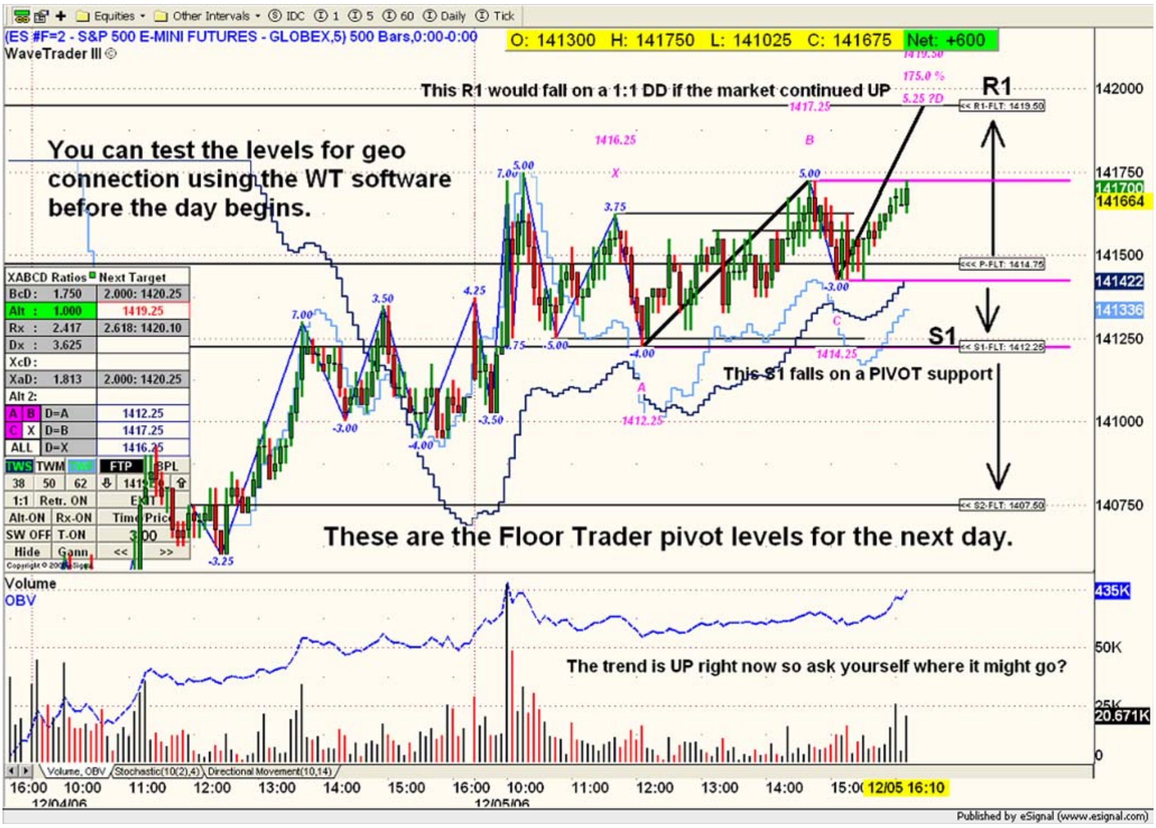
These levels should not necessarily be viewed as absolute support or resistance to trade off unless they fall into line with prior highs or lows or significant geometric levels easily determined using our other methods.

Nevertheless they should be seen as psychological levels as intraday traders will view the market as weak below S1 and strong if the price is above R1.

It seems to me from my study of FTP’s that they have become somewhat self fulfilling with their popularity and use by a large majority of floor traders.

As time goes on I don’t think the attitude of traders will change, in fact as more people use these levels they could even become more useful.

I used to think they didn’t mean much but since watching the market everyday I have found they can be useful in a lot of ways. Mainly as a guide to the market mood and as an extra bench mark to tie in with the methodologies I have used for the past 20 years.



(ES #F=2 - S&P 500 E-MINI FUTURES - GLOBEX,5) 500 Bars,0:00-0:00

O: 141300 H: 141750 L: 141025 C: 141675 Net: +600

This R1 would fall on a 1:1 DD if the market continued UP

You can test the levels for geo connection using the WT software before the day begins.

This S1 falls on a PIVOT support

These are the Floor Trader pivot levels for the next day.

The trend is UP right now so ask yourself where it might go?

WaveTrader III
R1
S1
<< R1-FLT: 1419.50
<<< P-FLT: 1414.75
<< S1-FLT: 1412.25
<< S2-FLT: 1407.50
XABCD Ratios
Next Target
142000
141750
141700
141664
141500
141422
141336
141250
141000
140750
Volume
OBV
435K
50K
25K
20.671K
0
16:00
10:00
11:00
12:00
13:00
14:00
15:00
12/04/06
12/05/06
12/05 16:10
Published by eSignal (www.esignal.com)

The WaveTrader will calculate and mark these levels on your chart in any time frame you choose to display. The WT III has a front end menu with a button FTP to switch them on or off. You can also right click on them to remove individual ones if you think they mean nothing. You can also extend a line out from the boxes containing their values to display the level across your charts. If you want a line the box can be left clicked and to remove the line display just left click it again. You can switch the lines on and off as the market may approach the level.

Once the levels are displayed you can investigate if they hold any other importance geometrically by using the WT “what if d?=” routine.

As long as you use the FTP routine sensibly you will find it helps you with your trading decisions. I know it helped me on many occasions.

It all depends on how you view things in my opinion. Most people teaching others about FTP do not know what I know so they cannot explain why some days they work and other days they fail.

I know why, so if you follow my approach it could be they will work for you when they have some validity.

Chapter 14

Overbought & Oversold Indicators:

Most traders accept the fact that the reason markets go up and down is due to the imbalance between buyers and sellers.

Buyers will outnumber sellers for a while and the market will go up, when the buyers have all bought the buying power will subside and those with profits will begin selling to book those profits.

In futures markets the same situation can apply in reverse with sellers.

Traders have indicators that oscillate between overbought and oversold readings. Anywhere in between the oscillators will be indicating a buying direction or a selling direction. Generally speaking these indicators are a good guide to the direction you should be trading in. When the indicators get to overbought or oversold readings they are a warning sign as traders often begin to book profits at such levels. Although it is possible in strong moves for oscillators to remain overbought and oversold for extended periods of time.

The best way to use oscillators is to use them as a filter when you have the market approaching a 1:1, retracement, double top or double bottom level. If the market is showing signs of overbought or oversold at the time then there is every chance the price level will meet with success as an interim reversal point.

The Slow Stochastic is a good indicator as it is followed by the majority of smart traders and if you monitor it in 5, 15 minute and 60 minute time frames it will generally keep you thinking in the right direction.

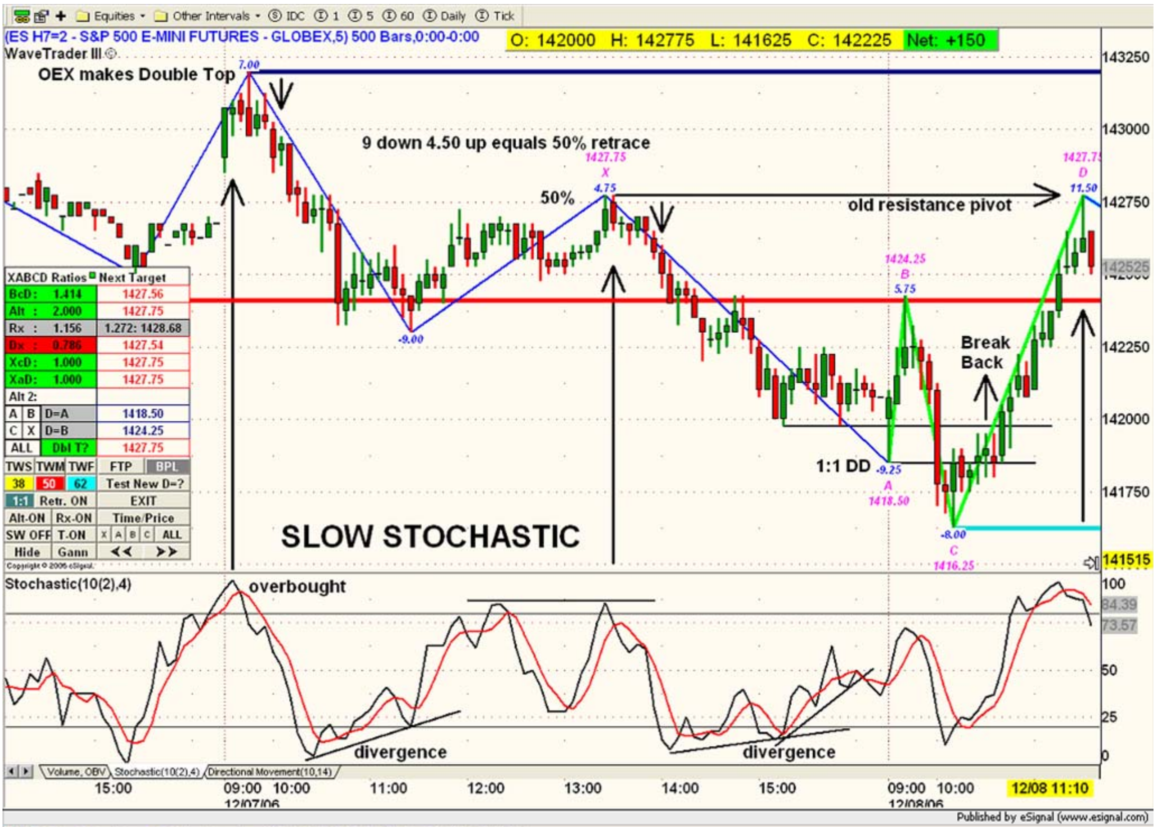
You can also use the DMI (a directional movement indicator) as a guide in tandem with the Slow Stochastic.

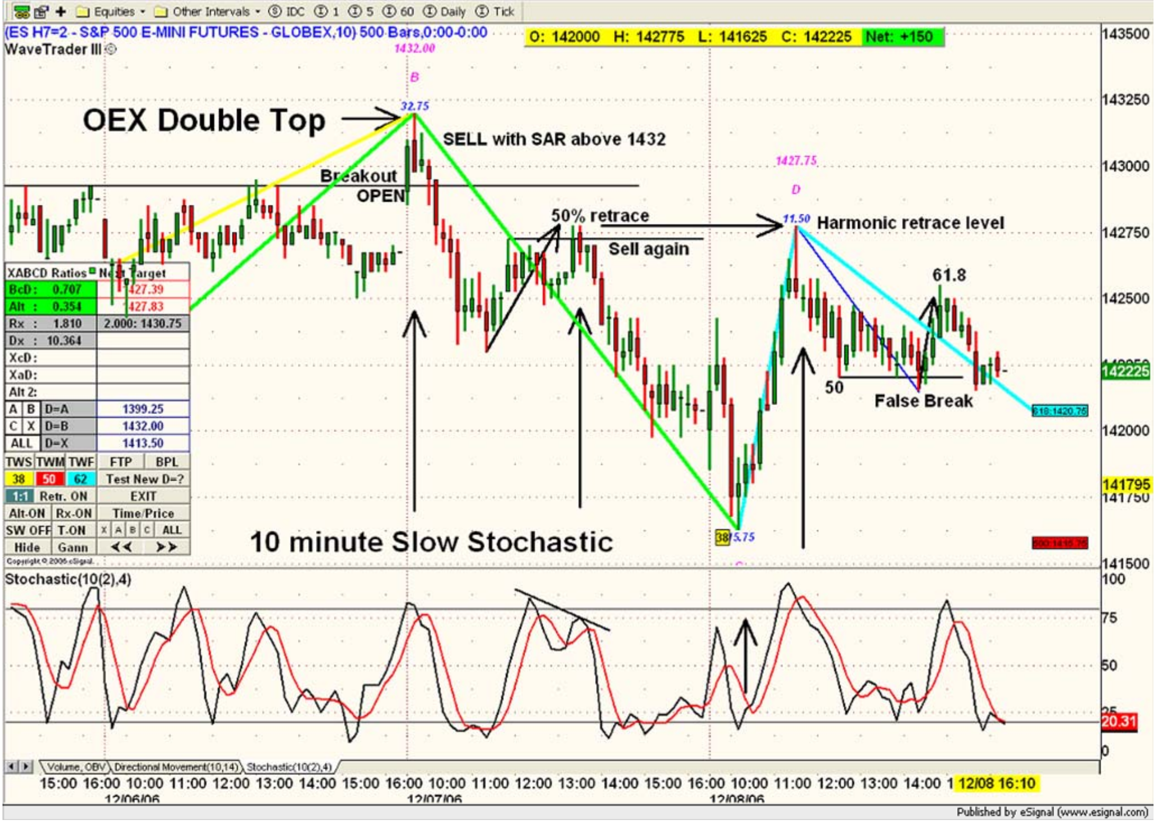
Between the two of these indicators you will know when the market is reading overbought or oversold and you will be mentally prepared for corrections or intraday reversals of trend.

It is amazing the little side issues that will influence traders to act, you need to be aware of them and monitor them all the time when you are trading; they will help you fine tune your poker game.

As Kenny Rogers sings, “you have to know when to hold ‘em, know when to fold ‘em, know when to walk away and know when to run.”

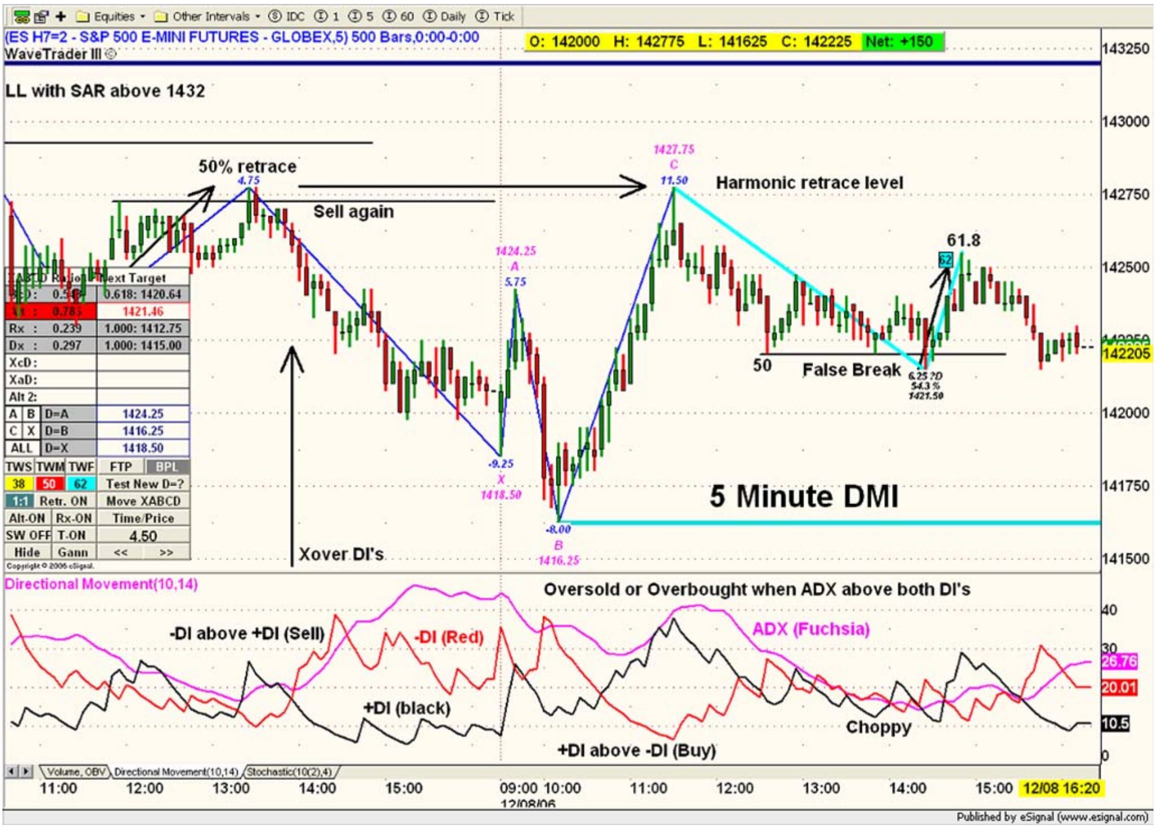
Slow Stochastic 10 on ES – 5 minute and below 10 minute:





The DMI indicator:

Normally I only use this as a backup to see when the system traders using it are forced to change direction. Signals are generated when the DI's crossover.



It is not as fast reacting to directional change nevertheless it will tell you when a strong trend is in force.

It also helps me filter the WaveTrader Trend Wave direction when it is diverging against the current price activity, e.g., when the market is going up and the TWS is moving down as it sometimes will after a sustained market run in one direction or the other.

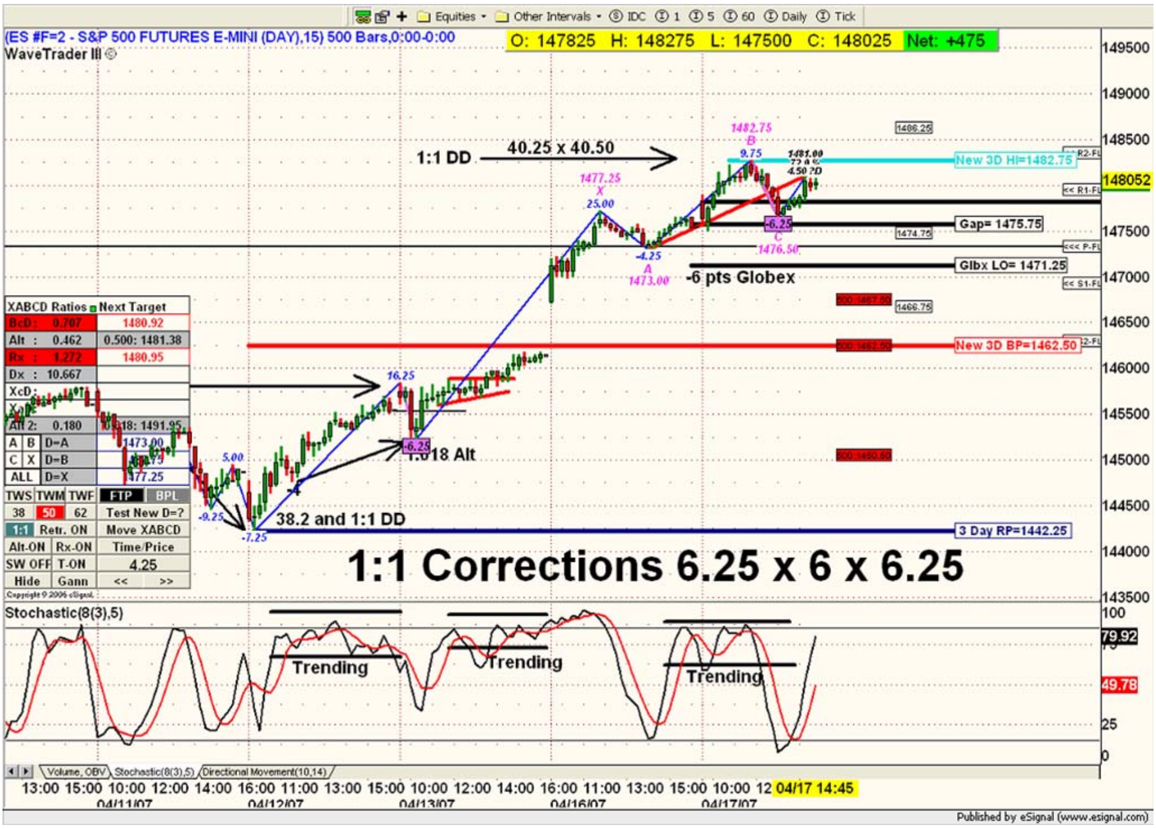
The thing to remember about indicators is that they never tell you when to take a trade, you have to use price action for that, but they will help you keep your mind focused on the direction you should be trading in.

When you combine volume and on balance volume studies with indicators the picture is a lot clearer.

When everything is in your favor and everyone else can see it, it makes your trading day a lot easier to cope with.

TRENDING MARKETS:

Probably the most confusing thing to happen with people who only use trend indicators to decipher the market action, is when the indicator remains overbought or oversold for long periods of time. They mostly do not realize that in trending market conditions the indicators can remain overbought or oversold for extended periods of time. This is not unusual at least 30% of the time and it is something you need to be aware of.



Any enduring overbought or oversold signs will be more obvious on a 15 minute to 60 minute chart due to the range in the preceding bars.

The example above basically explains what I am talking about as you can see that on the initial -6.25 correction the SS dipped out of the overbought zone temporarily. It then proceeded to remain at the overbought area for a significant time into the 1477 level. Overnight the market actually came back to a -6.00 for a 1:1 in the Globex.

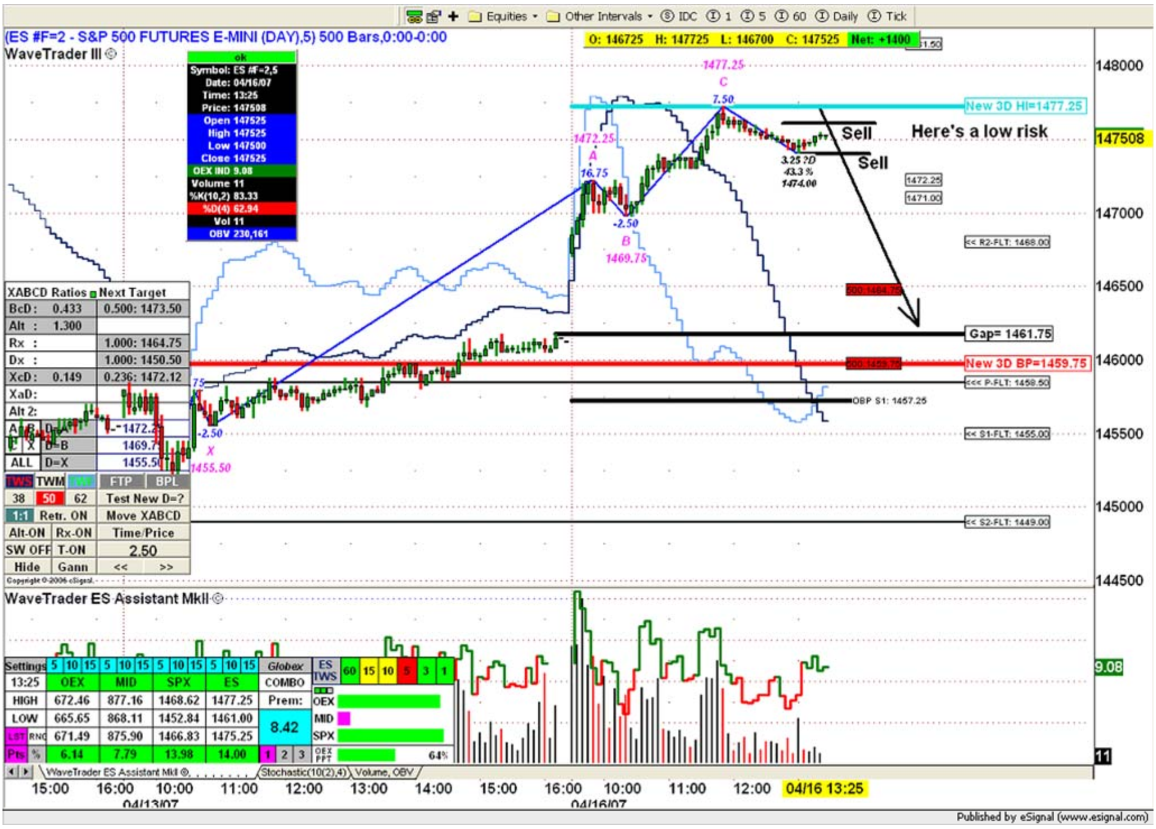
The next day session resumed and went on upwards, keeping the oscillator in the high end of its range until the 1:1 Double Drive (Large Degree) attracted sellers to take it back down for another -6.25 = 1:1 correction test of trend.

So you can see these indicators do have some redeeming features if you can understand them.

WAVE TRADER TREND WAVES:

Whilst I am on the subject of overbought and oversold periods that indicators go through, the TWS in the WaveTrader can actually diverge with price in the final stages of a trend, where the TWS indicator is telling you the trend has changed but the price keeps creeping along in the same price trending direction.

When you are getting conflicting signals from any of your indicators you should consult the geometry and differences between the 5, 10, 15 minute oscillators to see if you can clear up the picture in your mind. Most times it will take the market to go to a geometric level to reverse it, so always keep that in mind as the geometry will act as an attractor to price.



(ES #F=2 - S&P 500 FUTURES E-MINI (DAY),5) 500 Bars,0:00-0:00

O: 146725 H: 147725 L: 146700 C: 147525 Net: +1400

ok
Symbol: ES #F=2,5
Date: 04/16/07
Time: 13:25
Price: 147508
Open 147525
High 147525
Low 147500
Close 147525
OEX IND 9.08
Volume 11
%K(10,2) 83.33
%D(4) 62.94
Vol 11
OBV 230,161

XABCD Ratios	Next Target
BcD : 0.433	0.500: 1473.50
Alt : 1.300	
Rx :	1.000: 1464.75
Dx :	1.000: 1450.50
XcD : 0.149	0.236: 1472.12
XaD:	
Alt 2:	

Settings	5	10	15	5	10	15	5	10	15	5	10	15	Globex
13:25	OEX			MID			SPX			ES			COMBO
HIGH	672.46			877.16			1468.62			1477.25			Prem:
LOW	665.65			868.11			1452.84			1461.00			8.42
LST RNG	671.49			875.90			1466.83			1475.25			
Pts %	6.14			7.79			13.98			14.00			1 2 3

Equities
Other Intervals
IDC
1
5
60
Daily
Tick
WaveTrader III ©
1477.25
C
7.50
1472.25
A
16.75
-2.50
B
1469.75
3.25 ?D
43.3 %
1474.00
Sell
Sell
Here's a low risk
New 3D HI=1477.25
1472.25
1471.00
<< R2-FLT: 1468.00
500:1464.75
Gap= 1461.75
500:1459.75
New 3D BP=1459.75
<<< P-FLT: 1458.50
OBP S1: 1457.25
<< S1-FLT: 1455.00
<< S2-FLT: 1449.00
75
-2.50
X
1455.50
A B D=A
C X D=B
ALL D=X
1472.25
1469.75
1455.50
TWS TWM TWF
FTP
BPL
38
50
62
Test New D=?
1:1
Retr. ON
Move XABCD
Alt-ON
Rx-ON
Time/Price
SW OFF
T-ON
2.50
Hide
Gann
<<
>>
Copyright ©-2006 eSignal.
148000
147508
147000
146500
146000
145500
145000
144500
WaveTrader ES Assistant MkII ©
ES TWS
60
15
10
5
3
1
OEX
MID
SPX
OEX PPT
64%
9.08
11
WaveTrader ES Assistant MkII ©
Stochastic(10(2),4)
Volume, OBV
15:00
16:00
10:00
11:00
12:00
13:00
14:00
15:00
16:00
10:00
11:00
12:00
04/16 13:25
04/13/07
04/16/07
Published by eSignal (www.esignal.com)

On this chart see how the TWS and TWF were diverging (going down) against an upward moving price as it went towards the 1477.25 high. The market did decline back to a -6.00 1:1 but it was in the Globex session as it turned out. Once that happened the market then rallied to a new high in the next day session.

Whatever you do don't rely on oscillators to save you; you will have to save yourself.

Chapter 15

Volume & Volume Spikes & OBV:

Volume tells you when the market is active, quiet markets where little is happening are easily identified by the low volume going through.

Usually as a move is building up energy you will see small rises in the volume bars and when it is slowing down or correcting the volume will drop away.

Intense short term moves attract increasing volume as one side is forced to exit or reverse position as the price breaks through resistance or support levels they have set their stops around.

Breakaway moves must have increasing volume to keep on going; if they don't then they are just aberrations and fade very quickly. You will notice this by the way the volume spikes up and then drops away as the market makes a new high or low at the time.

The best way to quickly identify which way the volume is coming from is by the actions in the candlestick bars on a 5 minute chart and the OBV line.

If we start with breakout trade situations the market should see increasing volume on the breaks to confirm that there is going to be a continuation, if volume does not increase in the direction of the break it means there are no customers there that are worried about the level. If at a break the market reverses quickly on increasing volume then you will know there were traders targeting that area to add new positions to the larger degree trend.

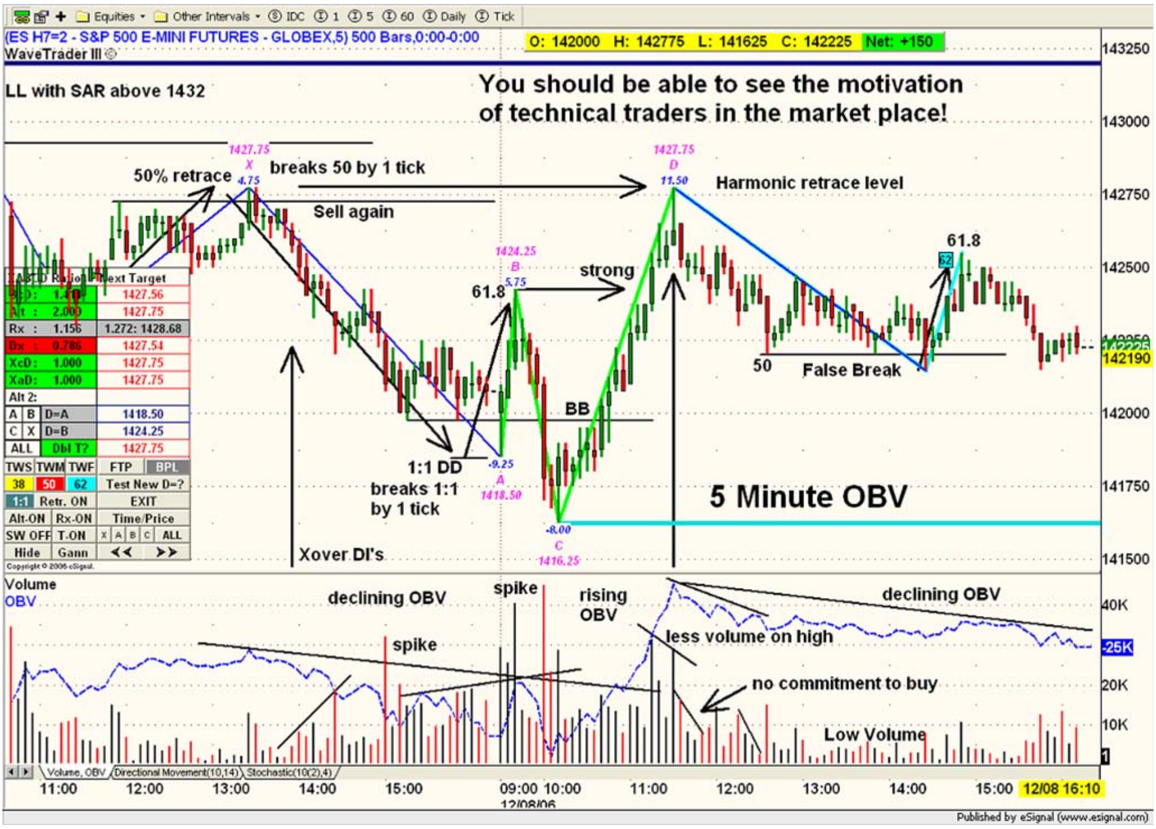
It is all a matter of common sense and the action of the bars (up or down) to work out which way the volume is pointing. The price action and the volume tell you who is in charge of the situation, be it the buyers or the sellers.

Your aim as a trader is to always stay on the same side as the money flow as it will always control where price goes; money rules. It sometimes makes no sense why the money is flowing the way it is, but the volume and the price action is unmistakable.

The price action and the volume flow always leave the precise clues every time whether you want to believe it or not.

If you want to succeed in the trading business you have to learn to believe what you see all the time rather than to hold onto a belief that has no substance.

For the casual observer the OBV (On balance volume) will give you a general guide to the ongoing trend so you can start first with this side of things.



Once you have enough screen time and get an understanding about these things they will become very clear and concise.

It won’t matter what occupation you want to follow, they all require some knowledge. But if you want to trade the ES futures for a living or to make your fortune you will need knowledge and experience to make it happen.

The most important part of your learning phase will be to clock up the screen time needed to recognize the opportunities as they come to hand.

I always look at it like a pilot flying IFR on instruments alone. Now this takes a lot of self belief and belief in your instruments to be comfortable with it. A few times when I was flying my own plane I ended up in situations that were life threatening and it was my belief and use of the instruments that got me back into the safe zone.

At sea when I was traveling at night on my boat across long stretches of dark waters it was my navigating skills and my instruments that led me directly to where I intended to go. I have never missed a way point in my life.

Back to Volume:

One of the things you need to learn about volume is that it gives you an appreciation of where the smart money is going.

When the market approaches technical levels that traders feel will cause a reaction to a current move the volume should help you see if that is their intention.

If a market is heading in one direction and there are no signs of hesitation in the current buying or selling direction then their intention is to break it through the level that may be important to one side of them. If you watch the volume closely you will see when they are not concerned about a stand out level that would normally represent support or resistance. There may be some traders going against the trend at some levels but when the smart money see it they will make a choice to either blow them away or join them.

So the volume on a bounce is very important to watch if you want to read the signs correctly.

Once the market is through a resistance or a support everyone who was on the wrong side has to go back to the drawing board.

Days go by when traders will fade and also attack support and resistance points on the unfolding chart. Some days traders are aggressive and other days they are prepared to trade ranges. It always depends on how strong they see the technical levels and the current trend to be. The news on the day is very important to traders who want to be aggressive, without news the market has no guidance, with news it has the chance of upsetting people who will consider they are around the wrong way.

I am never sure what motivates all classes of trader action across the board but it has a lot to do with the news of the day, technical indicators and I guess the amount of money they have available to commit to their own view.

At the end of the day the market only moves due to money entering or exiting in one direction over the other so you have to take the basics into account to win.

The main point I want to make is that the market is a living thing; it is not just a chart of ups and downs. It takes people to plough in money to make it go up and it takes people to suck money out to make it go down.

The only way you are going to see what they are doing is to watch the volume flow constantly. It won't have an instant effect but after a while the OBV will.

Chapter 16

News Events, Reports & Bloomberg:

News events follow a variety of forms.

Periodic economic reports interspersed with company earnings reports and the occasional unexpected announcement that shocks the current position holders.

The thing about news releases is that they either confirm or refute the majority opinion held at the time.

If news releases simply confirm what everyone was thinking they will have little effect on the market behavior, but if they are completely contrary to the established mood at the time they will cause people in the market to take either aggressive or defensive actions in regard to their existing positions.

Most times news events will only cause a one or two day reaction to the day to day behavior of the regular traders. Nevertheless if news keeps coming day after day that infers that the market will be affected in due course by a flow onto economic conditions the news can become a precursor to an extended market move in one direction or the other.

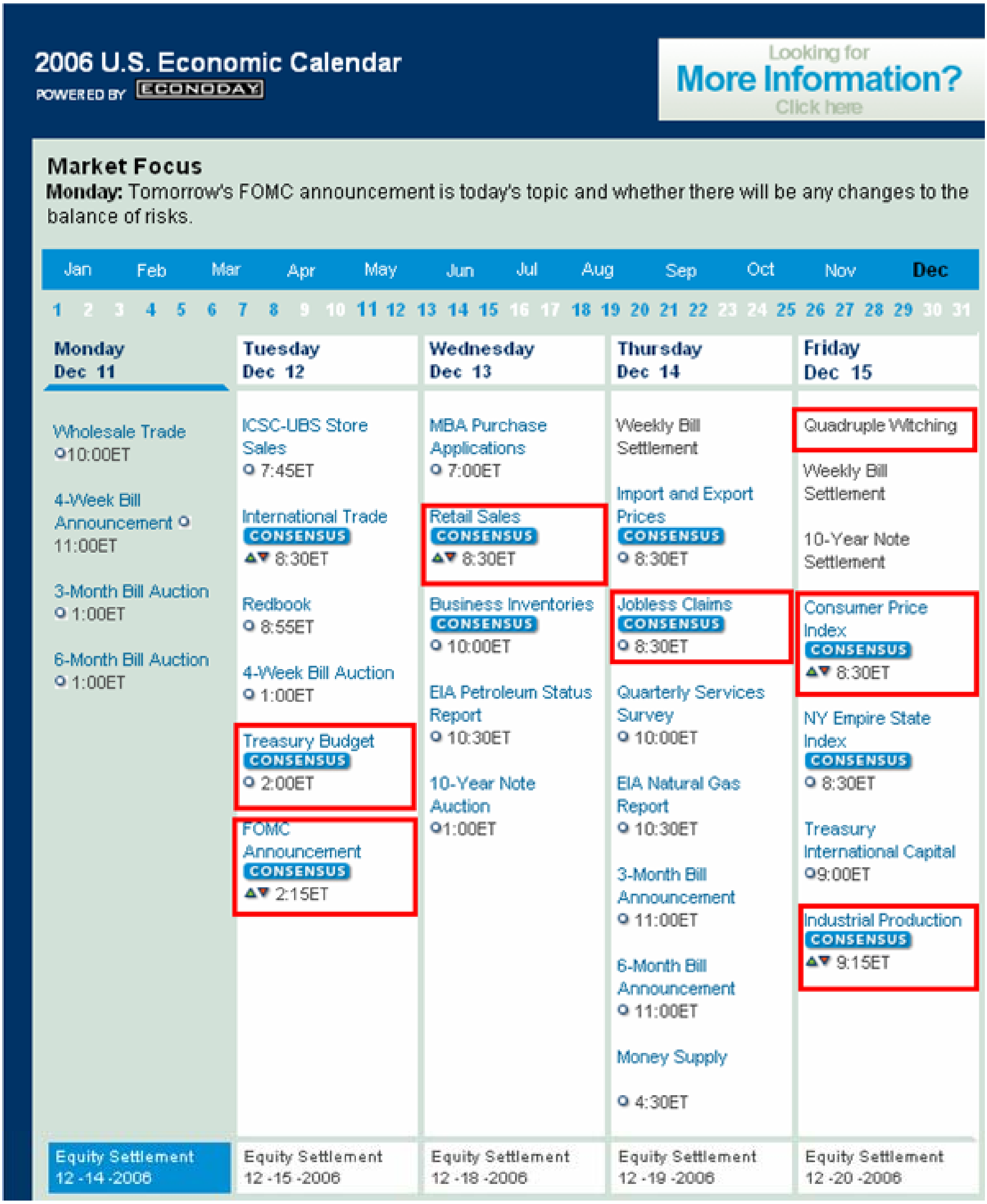
Therefore it is very important that you keep abreast of the news surrounding the markets that you are trading.

In the past I have seen it said on so many occasions that you don't need to worry about news as it will always be reflected in the price as time passes by. This maybe true, nevertheless there are many short term opportunities to be had by knowing the news as it is released and as it becomes new knowledge to the market.

If the market moves in a strong direction on a news release and it keeps going in the same direction after a 5 minute period of its release you can nearly bet that this news will continue to influence the market for at least another hour or two as the news commentators add more fuel to the general knowledge of it.

Other times when the market is moving along steadily in a direction and a news release jerks it back the other way, so long as the influence does not endure for more than 5 to 10 minutes it will most likely be that the market will revert back to its original theme and wash off the news it was temporarily influenced by.

The other thing to remember about economic news is that before it is released there will have been a lot of discussion in public forums before and leading up to its release. This type of thing which the press thrive upon has the effect of making the news release a lot more dramatic than it actually is.



2006 U.S. Economic Calendar
POWERED BY ECONODAY

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Market Focus

Monday: Tomorrow's FOMC announcement is today's topic and whether there will be any changes to the balance of risks.

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov **Dec**

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Monday Dec 11	Tuesday Dec 12	Wednesday Dec 13	Thursday Dec 14	Friday Dec 15
Wholesale Trade ○10:00ET 4-Week Bill Announcement ○ 11:00ET 3-Month Bill Auction ○ 1:00ET 6-Month Bill Auction ○ 1:00ET	ICSC-UBS Store Sales ○ 7:45ET International Trade CONSENSUS ▲▼ 8:30ET Redbook ○ 8:55ET 4-Week Bill Auction ○ 1:00ET Treasury Budget CONSENSUS ○ 2:00ET FOMC Announcement CONSENSUS ▲▼ 2:15ET	MBA Purchase Applications ○ 7:00ET Retail Sales CONSENSUS ▲▼ 8:30ET Business Inventories CONSENSUS ○ 10:00ET EIA Petroleum Status Report ○ 10:30ET 10-Year Note Auction ○1:00ET	Weekly Bill Settlement Import and Export Prices CONSENSUS ○ 8:30ET Jobless Claims CONSENSUS ○ 8:30ET Quarterly Services Survey ○ 10:00ET EIA Natural Gas Report ○ 10:30ET 3-Month Bill Announcement ○ 11:00ET 6-Month Bill Announcement ○ 11:00ET Money Supply ○ 4:30ET	Quadruple Witching Weekly Bill Settlement 10-Year Note Settlement Consumer Price Index CONSENSUS ▲▼ 8:30ET NY Empire State Index CONSENSUS ○ 8:30ET Treasury International Capital ○9:00ET Industrial Production CONSENSUS ▲▼ 9:15ET
Equity Settlement 12-14-2006	Equity Settlement 12-15-2006	Equity Settlement 12-18-2006	Equity Settlement 12-19-2006	Equity Settlement 12-20-2006

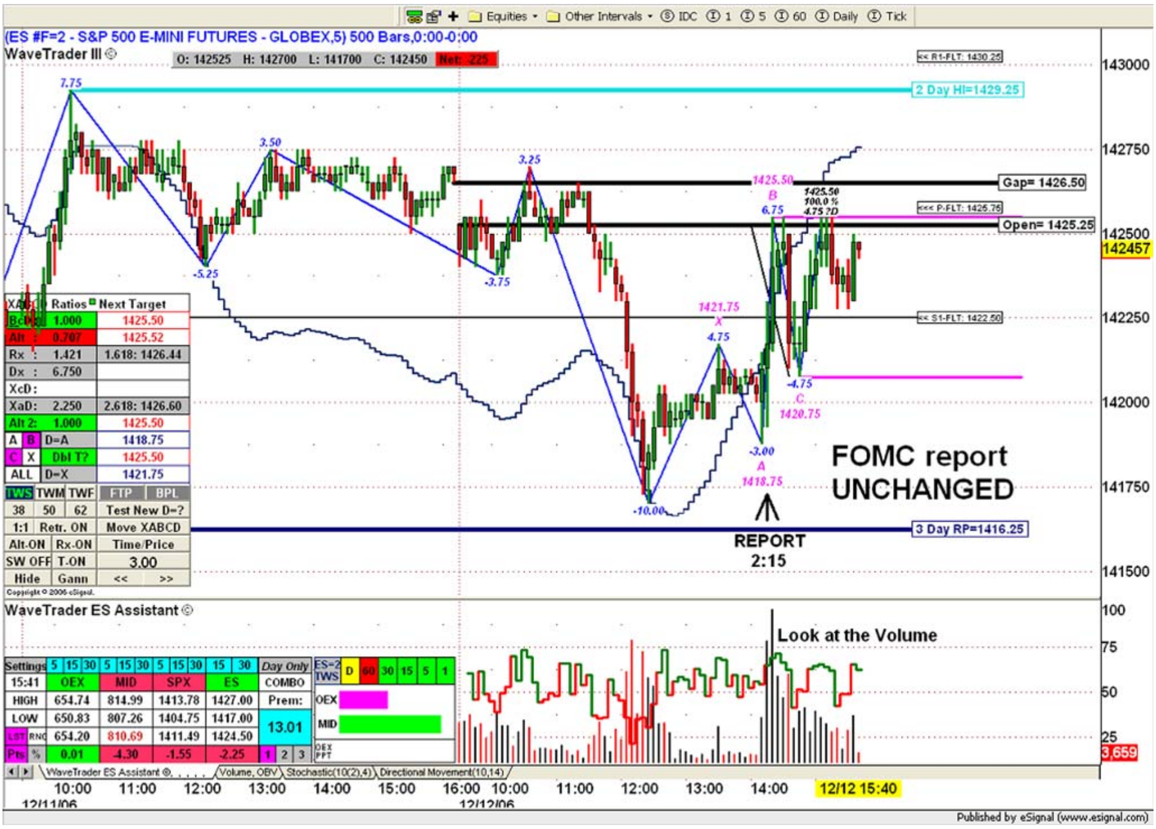
This is an example of the regular report schedule each week, and it comes week in and week out, if you are unaware of it you better investigate it now.

There are people out there in this world who use news releases to flood the market with orders and try and knock the people who are not listening off their perch by running their resident orders. So when something important is up coming you should be aware of it beforehand and plan to trade around it.

As time goes by and you witness enough of the gyrations in the market that occur because of associated news you will realize why I am making a point about this.

News gives new people a reason to enter the market and when they are all in the technical traders will take over.

I am going to show you a couple of different examples just so you can see the importance of NEWS and know to take it into account in the future.


Equities
Other Intervals
IDC
1
5
60
Daily
Tick
(ES #F=2 - S&P 500 E-MINI FUTURES - GLOBEX,5) 500 Bars,0:00-0:00
WaveTrader III ©
O: 142525 H: 142700 L: 141700 C: 142450 Net: 225
<< R1-FLT: 1430.25
2 Day HI=1429.25
Gap= 1426.50
<< P-FLT: 1426.75
Open= 1425.25
<< S1-FLT: 1422.50
3 Day RP=1416.25
7.75
3.50
-5.25
3.25
-3.75
1425.50
B
6.75
1425.50
100.0 %
4.75 ?D
1421.75
X
4.75
-4.75
C
1420.75
-3.00
A
1418.75
-10.00
FOMC report
UNCHANGED
REPORT
2:15
143000
142750
142500
142457
142250
142000
141750
141500
Copyright © 2006 eSignal.
WaveTrader ES Assistant ©
Look at the Volume
100
75
50
25
3,659
WaveTrader ES Assistant ©
Volume, OBV
Stochastic(10(2),4)
Directional Movement(10,14)
10:00
11:00
12:00
13:00
14:00
15:00
16:00
10:00
11:00
12:00
13:00
14:00
12/12 15:40
12/11/06
12/12/06
Published by eSignal (www.esignal.com)

XABCD	Ratios	Next Target
BcD:	1.000	1425.50
Alt :	0.707	1425.52
Rx :	1.421	1.618: 1426.44
Dx :	6.750	
XcD:		
XaD:	2.250	2.618: 1426.60
Alt 2:	1.000	1425.50
A B	D=A	1418.75
C X	Dbl T?	1425.50
ALL	D=X	1421.75
TWS TWM TWF		FTP BPL
38 50 62		Test New D=?
1:1	Retr. ON	Move XABCD
Alt-ON	Rx-ON	Time/Price
SW OFF	T-ON	3.00
Hide	Gann	<< >>

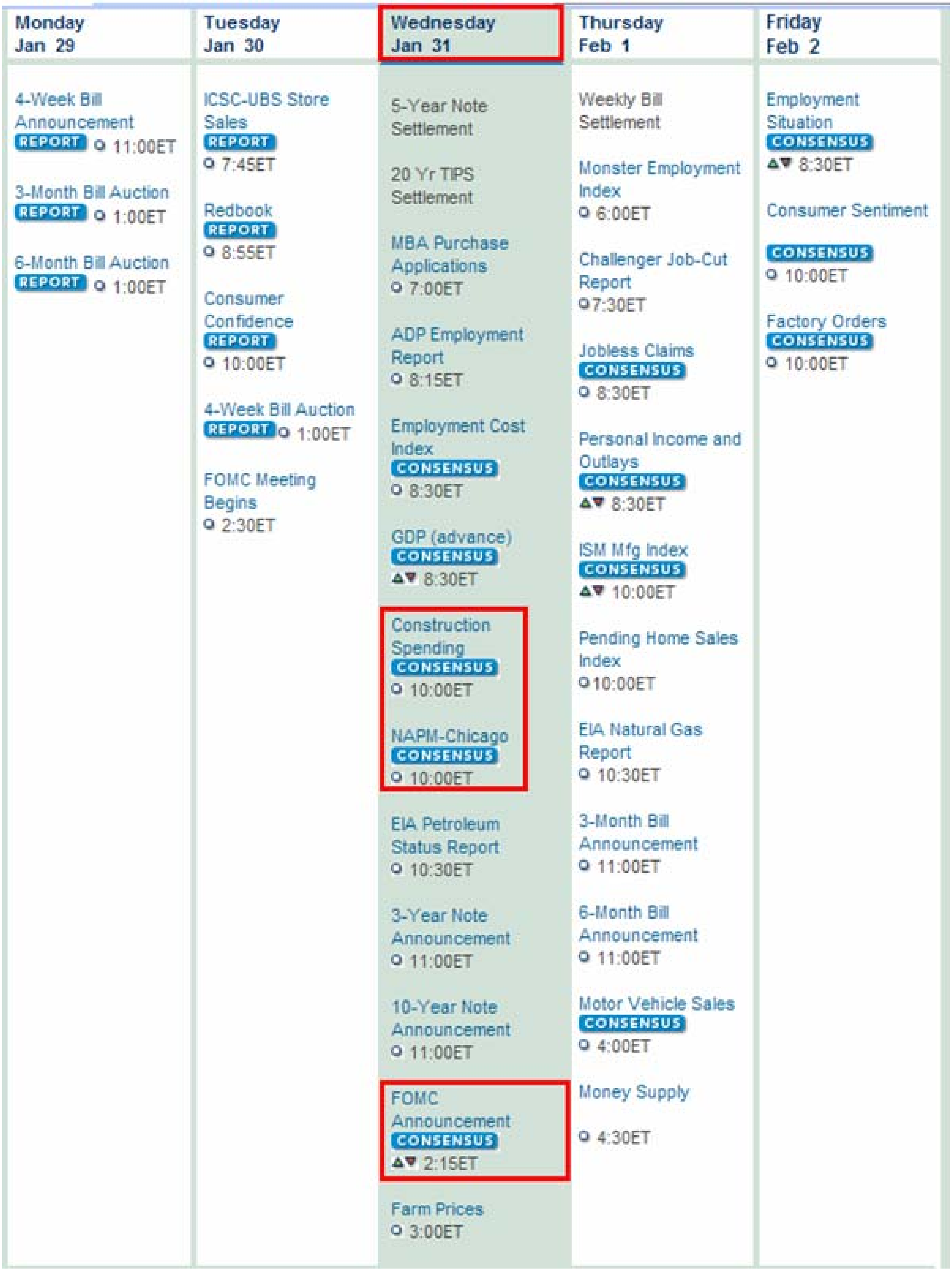
Settings	5 15 30	5 15 30	5 15 30	15 30	Day Only
15:41	OEX	MID	SPX	ES	COMBO
HIGH	654.74	814.99	1413.78	1427.00	Prem:
LOW	650.83	807.26	1404.75	1417.00	13.01
LST RNG	654.20	810.69	1411.49	1424.50	
Pts %	0.01	-4.30	-1.55	-2.25	1 2 3

ES=2 TWS	D	60	30	15	5	1
OEX						
MID						
OEX PPT						

Tuesday 2:15pm: FOMC Announcement “rates unchanged”, this quickly led to the market rallying back to the opening price level in the next 15 minutes.

The rally began from a smaller 61.8 and managed to climb 6.75 points rather quickly. When it stalled traders took profit! Just look at the volume bars around 2:15pm and you will have no doubt that there were traders waiting for the report to be released.

It is now January 31st, 2007: and it is a new FOMC report day ahead:



Monday
Jan 29

4-Week Bill Announcement
REPORT ○ 11:00ET

3-Month Bill Auction
REPORT ○ 1:00ET

6-Month Bill Auction
REPORT ○ 1:00ET

Tuesday
Jan 30

ICSC-UBS Store Sales
REPORT
○ 7:45ET

Redbook
REPORT
○ 8:55ET

Consumer Confidence
REPORT
○ 10:00ET

4-Week Bill Auction
REPORT ○ 1:00ET

FOMC Meeting Begins
○ 2:30ET

Wednesday
Jan 31

5-Year Note Settlement

20 Yr TIPS Settlement

MBA Purchase Applications
○ 7:00ET

ADP Employment Report
○ 8:15ET

Employment Cost Index
CONSENSUS
○ 8:30ET

GDP (advance)
CONSENSUS
▲▼ 8:30ET

Construction Spending
CONSENSUS
○ 10:00ET

NAPM-Chicago
CONSENSUS
○ 10:00ET

EIA Petroleum Status Report
○ 10:30ET

3-Year Note Announcement
○ 11:00ET

10-Year Note Announcement
○ 11:00ET

FOMC Announcement
CONSENSUS
▲▼ 2:15ET

Farm Prices
○ 3:00ET

Thursday
Feb 1

Weekly Bill Settlement

Monster Employment Index
○ 6:00ET

Challenger Job-Cut Report
○ 7:30ET

Jobless Claims
CONSENSUS
○ 8:30ET

Personal Income and Outlays
CONSENSUS
▲▼ 8:30ET

ISM Mfg Index
CONSENSUS
▲▼ 10:00ET

Pending Home Sales Index
○ 10:00ET

EIA Natural Gas Report
○ 10:30ET

3-Month Bill Announcement
○ 11:00ET

6-Month Bill Announcement
○ 11:00ET

Motor Vehicle Sales
CONSENSUS
○ 4:00ET

Money Supply

○ 4:30ET

Friday
Feb 2

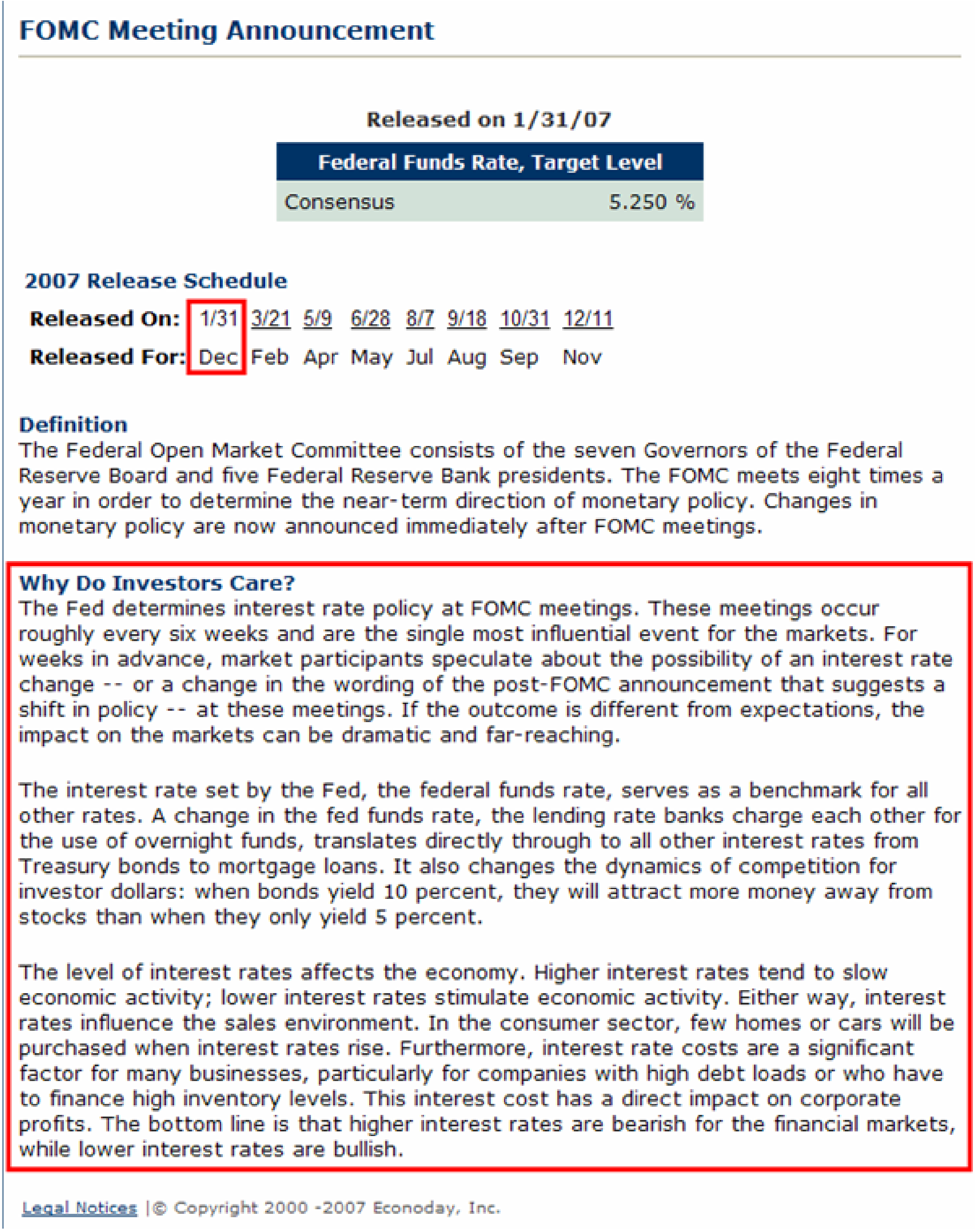
Employment Situation
CONSENSUS
▲▼ 8:30ET

Consumer Sentiment

CONSENSUS
○ 10:00ET

Factory Orders
CONSENSUS
○ 10:00ET

The report is due for release at 2:15pm ET:



FOMC Meeting Announcement

Released on 1/31/07

Federal Funds Rate, Target Level	
Consensus	5.250 %

2007 Release Schedule

Released On:	1/31	3/21	5/9	6/28	8/7	9/18	10/31	12/11
Released For:	Dec	Feb	Apr	May	Jul	Aug	Sep	Nov

Definition
The Federal Open Market Committee consists of the seven Governors of the Federal Reserve Board and five Federal Reserve Bank presidents. The FOMC meets eight times a year in order to determine the near-term direction of monetary policy. Changes in monetary policy are now announced immediately after FOMC meetings.

Why Do Investors Care?
The Fed determines interest rate policy at FOMC meetings. These meetings occur roughly every six weeks and are the single most influential event for the markets. For weeks in advance, market participants speculate about the possibility of an interest rate change -- or a change in the wording of the post-FOMC announcement that suggests a shift in policy -- at these meetings. If the outcome is different from expectations, the impact on the markets can be dramatic and far-reaching.

The interest rate set by the Fed, the federal funds rate, serves as a benchmark for all other rates. A change in the fed funds rate, the lending rate banks charge each other for the use of overnight funds, translates directly through to all other interest rates from Treasury bonds to mortgage loans. It also changes the dynamics of competition for investor dollars: when bonds yield 10 percent, they will attract more money away from stocks than when they only yield 5 percent.

The level of interest rates affects the economy. Higher interest rates tend to slow economic activity; lower interest rates stimulate economic activity. Either way, interest rates influence the sales environment. In the consumer sector, few homes or cars will be purchased when interest rates rise. Furthermore, interest rate costs are a significant factor for many businesses, particularly for companies with high debt loads or who have to finance high inventory levels. This interest cost has a direct impact on corporate profits. The bottom line is that higher interest rates are bearish for the financial markets, while lower interest rates are bullish.

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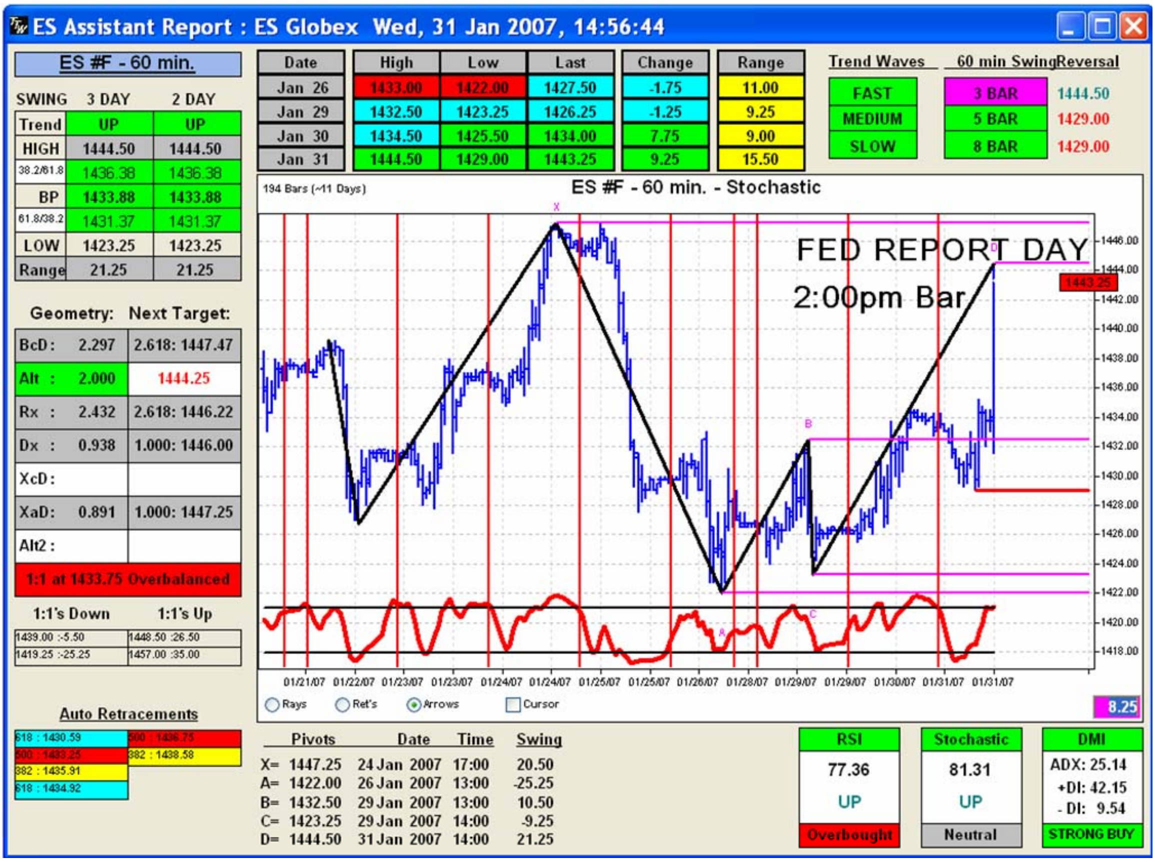
Econoday publish consensus on upcoming reports and then review the reports after they are released. These can be accessed using the WT III **Events** Button.

If you keep up with the reports it will give you an underlying knowledge of why traders act and react to new news items on a day to day basis.

Report Day FOMC:


ES Assistant Report : ES Globex Wed, 31 Jan 2007, 14:56:44

ES #F - 60 min.

SWING	3 DAY	2 DAY
Trend	UP	UP
HIGH	1444.50	1444.50
38.2/61.8	1436.38	1436.38
BP	1433.88	1433.88
61.8/38.2	1431.37	1431.37
LOW	1423.25	1423.25
Range	21.25	21.25

Geometry:		Next Target:
BcD :	2.297	2.618: 1447.47
Alt :	2.000	1444.25
Rx :	2.432	2.618: 1446.22
Dx :	0.938	1.000: 1446.00
XcD :		
XaD:	0.891	1.000: 1447.25
Alt2 :		

1:1 at 1433.75 Overbalanced

1:1's Down	1:1's Up
1439.00 :-5.50	1448.50 :26.50
1419.25 :-25.25	1457.00 :35.00

Auto Retracements

618 : 1430.59	500 : 1436.75
500 : 1433.25	382 : 1438.58
382 : 1435.91	
618 : 1434.92	

Date	High	Low	Last	Change	Range
Jan 26	1433.00	1422.00	1427.50	-1.75	11.00
Jan 29	1432.50	1423.25	1426.25	-1.25	9.25
Jan 30	1434.50	1425.50	1434.00	7.75	9.00
Jan 31	1444.50	1429.00	1443.25	9.25	15.50

Trend Waves	60 min SwingReversal	
FAST	3 BAR	1444.50
MEDIUM	5 BAR	1429.00
SLOW	8 BAR	1429.00

Pivots		Date	Time	Swing
X=	1447.25	24 Jan 2007	17:00	20.50
A=	1422.00	26 Jan 2007	13:00	-25.25
B=	1432.50	29 Jan 2007	13:00	10.50
C=	1423.25	29 Jan 2007	14:00	-9.25
D=	1444.50	31 Jan 2007	14:00	21.25

RSI	Stochastic	DMI
77.36	81.31	ADX: 25.14
UP	UP	+DI: 42.15 - DI: 9.54
Overbought	Neutral	STRONG BUY

194 Bars (~11 Days)
ES #F - 60 min. - Stochastic
X
FED REPORT DAY
2:00pm Bar
D
B
A
C
1443.25
1446.00
1444.00
1442.00
1440.00
1438.00
1436.00
1434.00
1432.00
1430.00
1428.00
1426.00
1424.00
1422.00
1420.00
1418.00
01/21/07
01/22/07
01/23/07
01/23/07
01/24/07
01/24/07
01/25/07
01/25/07
01/26/07
01/28/07
01/29/07
01/29/07
01/30/07
01/31/07
01/31/07
○ Rays
○ Ret's
● Arrows
☐ Cursor
8.25

As usual the market went relatively quiet in the two hours leading up to the 2:15pm report time.

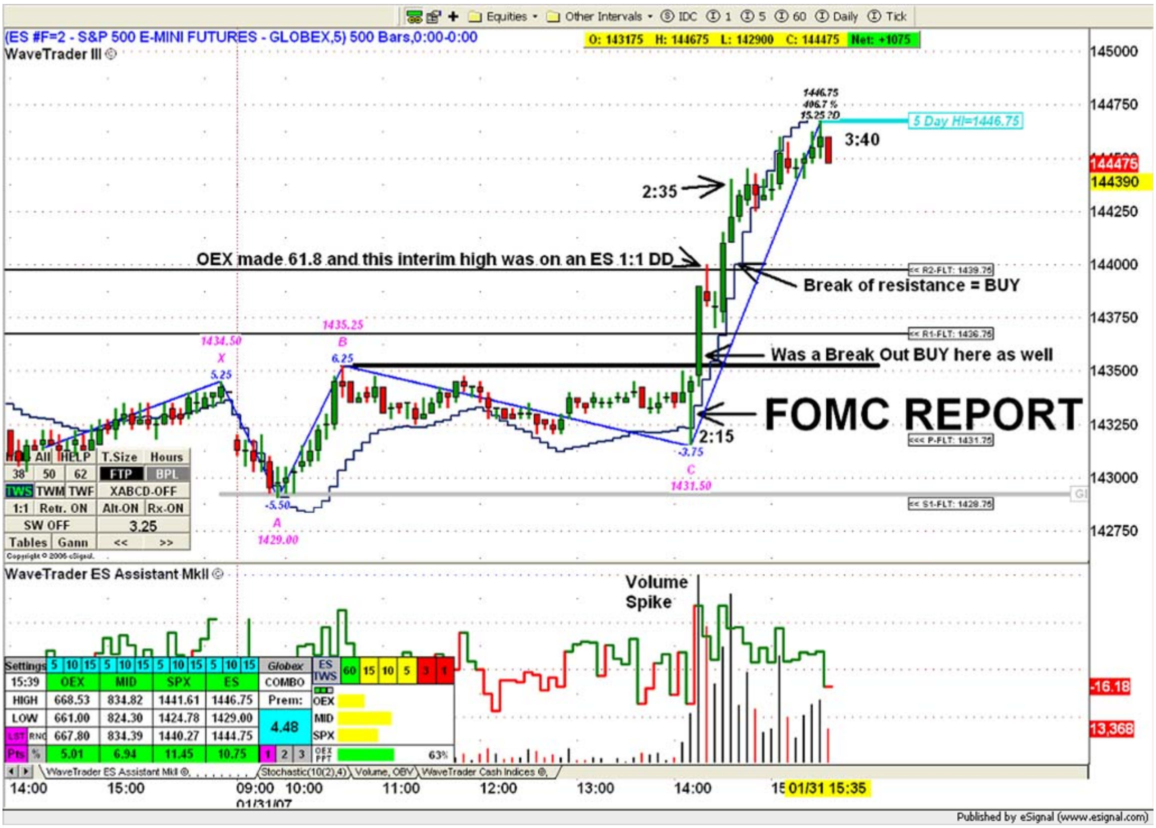
The FOMC announced NO CHANGE to interest rates this month and the buyers immediately took control.

Prior to today's session the ES had halted the advances of the previous 2 days at a 50% retrace level of larger degree. This basically was the present resistance to overcome for the trend to continue up.

Within minutes of the FOMC report release the ES broke up through its early morning high, the OEX and the MID broke earlier highs at the same time and away it went.

The first sign that it would possibly stop was when the OEX halted on its larger degree 61.8, at the same time the ES was at a 1:1 DD high. This didn't last long as the buying was relentless. ES 1440 was now the new break out BUY trade level and off it went again leaving the bears in the dust. The volume remained high throughout the first 30 minutes of the report release.

There were two PRICE ACTION buying levels in the run up from 1434 to 1446.75 and they were 1435.75 and 1440.50, the volume on the 2:15 bar before the first break out was evidence that there was going to be plenty of action generated from the report.



Settings	OEX	MID	SPX	ES	Globex
15:39	5 10 15	5 10 15	5 10 15	5 10 15	COMBO
HIGH	668.53	834.82	1441.61	1446.75	Prem:
LOW	661.00	824.30	1424.78	1429.00	4.48
LST RNG	667.80	834.39	1440.27	1444.75	
Pts %	5.01	6.94	11.45	10.75	1 2 3

ES TWS	60	15	10	5	3	1
OEX						
MID						
SPX						
OEX PPT						63%

Something you should learn from today is that NEWS moves markets and as the technical levels cave in the price will move even further.

Prior to the FOMC report the market had been moving in an upward direction from a larger degree low a few days back. Obviously the LINE OF LEAST RESISTANCE was to the upside. The SPX technical resistance at the 50 and 1:1 DD, illustrated on the chart in page 239, had also been penetrated in early morning trading. The stage was set and the players proceeded to act when they were prompted with the FOMC report.

Events

This button can be found in the WaveTrader III under the GANN page choices. It will load your internet browser and connect you to the ECONODAY web site and the current week reports schedule.

I advise you to review this page daily so you are aware of upcoming reports.

Chapter 17

Elliott Wave Basics:

R.N. Elliott introduced his thesis of wave analysis to market watchers back in the 1930's.

Ralph N. Elliott was a retired engineer, who because of health reasons began an exhaustive study into market analysis. Elliott developed his theory, based on natural law. He observed the way he saw the US share market expanded and contracted, i.e., the time and price relationships between bull and bear markets during their development and adjustment stages. He later worked on Wall Street operating a market advisory service.

Elliott's basic tenet was, "All waves of similar degree will relate in both TIME & PRICE amplitude."

It would be careless of me not to review Elliott's teachings in this manual, as I subconsciously use them on a day to day basis myself.

ELLIOTT WAVE STRUCTURES

To keep track of the stages a bull or bear market moves through, Ralph Elliott invented a lettering system to keep track of waves of similar degree.

Waves are broken down into stages from: -

CYCLE	I, II, III, IV, V	Huge A B C
PRIMARY	[1] [2] [3] [4] [5]	[A], [B], [C]
INTERMEDIATE	(1) (2) (3) (4) (5)	(A), (B), (C)
MINOR	1 2 3 4 5	A, B, C – D, E
MINUTE	i, ii, iii, iv, v	a, b, c – d, e

Each complete lesser degree wave sequence comprises a single wave of higher degree, i.e., 1-2-3-4-5 of MINOR degree could complete either wave (1), (3) or (5) of an INTERMEDIATE degree trend in the wave sequence.

Wave A-B-C of MINOR degree would complete either wave (2) or (4) of an INTERMEDIATE degree correction. You can also have A, B, C, D, E corrections.

Elliott's Basic Counting Theory

BULL MARKETS

Elliott's rules state that each expansion will unfold in a 5 wave sequence or 7 or 9 waves with extensions.

Waves 1, 3, 5, 7 & 9 will be impulse moves MADE UP OF 5 WAVES in the direction of the primary trend.

Waves 2, 4, 6 & 8 will be corrections to the main trend MADE UP OF 3 WAVES as an A-B-C or 5 waves as an A-B-C-D-E in triangles or rectangles.

BEAR MARKETS

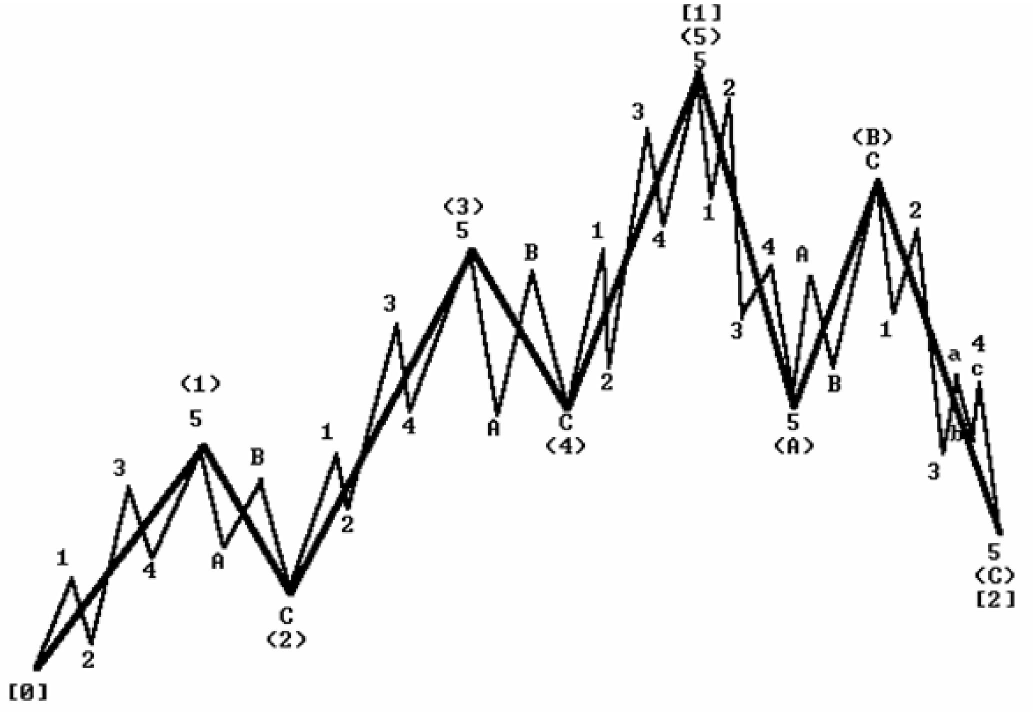
In a bear market the A - wave will most likely contain 5 legs, the B - wave 3 legs and the C - wave 5 legs.

IMPULSE WAVES

Impulse waves determine the trend and contain a minimum of 5 legs.

CORRECTIVE WAVES

Corrective waves will normally contain 3 legs, although sometimes only 1 fast and sharp one will complete a correction.



EXAMPLE OF ELLIOTT WAVE COUNTING TO LABEL MARKET STRUCTURES

There are several important rules one should note about Elliott Wave.

These in my opinion are: -

1. The overall trend is established by the direction (up or down) of the swings containing 5 leg sequences.

2. Corrective wave patterns in a 5 wave sequence will ALTERNATE.
Wave 2 and 4 will alternate in appearance, for instance a simple corrective wave will be followed by a complex looking wave or vice versa. Nevertheless wave 4 should never exceed the price amplitude (price units) of wave 2.

3. Wave 3 is usually the strongest impulse in appearance and will be accompanied by strong indications of overbought or oversold near its completion.

4. Wave 4 corrections will normally terminate within the area of the previous wave 4 of lesser degree. Often a wave 4 will terminate on a 38.2% price retracement of the previous impulse wave 3 or 38.2% of the total advance in the entire series in similar degree from the beginning.

5. Triangles and rectangles in 4th waves indicate strength in the wave 5.

6. Extensions can only occur in impulse waves and commonly do, extensions are far more likely in 3rd and 5th waves.

7. Extensions in 5th waves are often retraced twice. The first retracement can be fast and in most cases results in a typical fast swift type movement.

8. A break of the channel line extended from the termination of waves [2] and [4] most often confirms a significant change in trend.

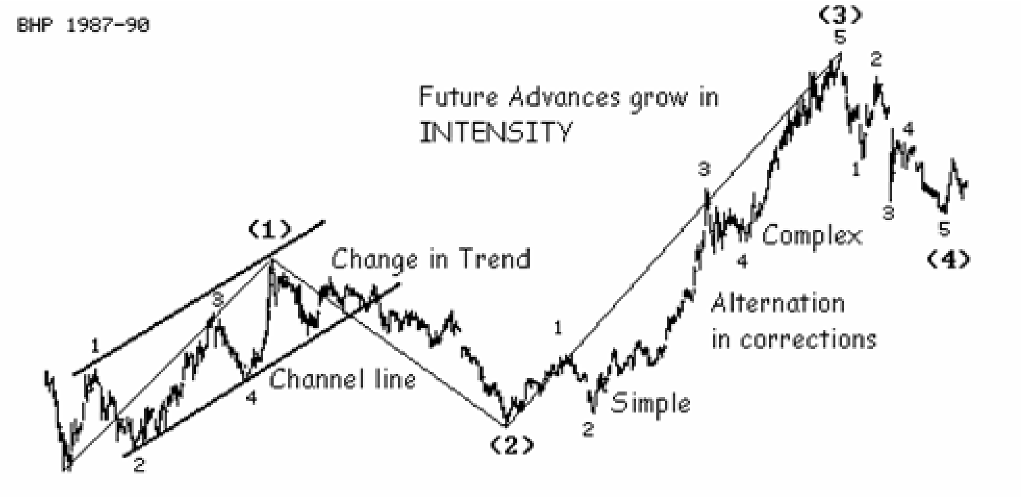
Anyone wishing to make a comprehensive study of Elliott Wave can do so by studying the following two books.

MASTERING ELLIOTT WAVE by Glenn Neely, 1990, is probably the most complete work I have seen on Elliott Wave analysis. Neely deals with the real world and offers an exceptional insight into the patterns formed by market price activity. (223 pages) Neely in my opinion is a knowledgeable Elliottician, although at the time of writing this book he was unaware of some basic ratios in the Fibonacci sequences. I spoke to him once in person in 1989 and he had no knowledge of the 1.272 and 0.786 ratios that are so frequently seen in market swings. He frequently uses 0.809 which is half 1.618 so he was close but not exactly on the mark. Still we cannot hold this against him. His book is required reading IMO.

ELLIOTT WAVE THEORY by Frost and Prechter, 1978, is the first book on Elliott Wave I became familiar with. This book contains all the basic information but, it is difficult for a novice; it needs to be read 4 or 5 times before the concepts begin to become clear. (190 pages). Frost was the mastermind behind this book although Prechter got most of the credit. This book created a cult following amongst technical people and the methodology is as strong as ever today.

The Overall Trend is Established by the direction of the 5 wave Sequences

The main benefit of this knowledge lies in the fact that trends propagate (grow on themselves). Once the minor waves start growing in 5 waves you can expect the intermediate and primary waves to do the same.



TREND IS ESTABLISHED BY THE 5 WAVE SEQUENCES

Generally when a trend is well established the corrections become shallower and shorter in duration. In a strong trend, counter trend reactions generally last no longer than 3 days.

Degrees of wave movement can be broken down by comparing their price ranges and time duration.

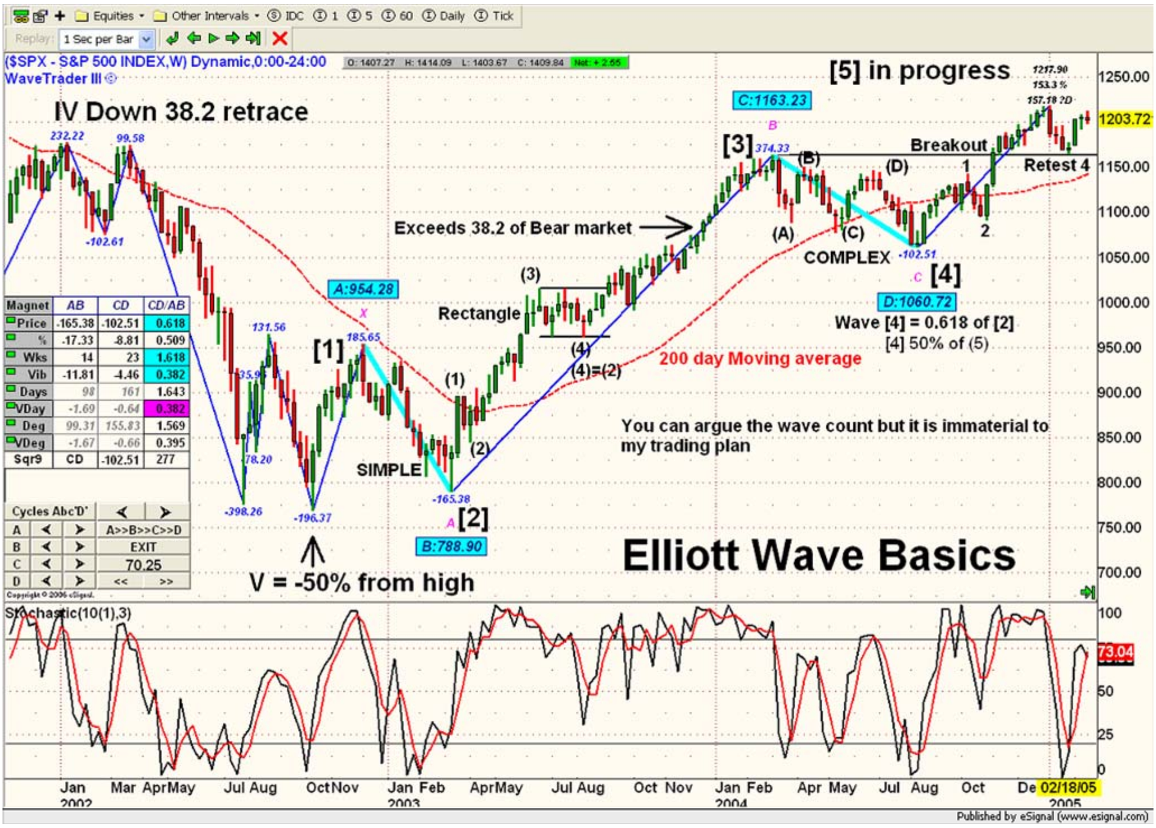
For instance when a subsequent correction OVERBALANCES the price and/or time of a prior correction, the move in progress, is usually of a higher degree and the wave count can be re-evaluated and gives you the chance to reappraise your wave count. Wave counts are mostly subjective issues in any case and are popular with forecasters who do not trade.

Continuations to the trend are signalled by the price breaking out to new highs or lows when the reactions are less than those that went before.

Wave 3 in any 5-wave sequence will usually be the strongest and it normally ends with the trend indicators in an extremely overbought or oversold condition.

Corrections i.e., waves 2 and 4 should normally alternate in appearance.

Corrective waves can take on either a "simple" or “complex" form. A "simple" form will normally be followed by a "complex" form or vice-versa. This is known as alternation of pattern.



Magnet	AB	CD	CD/AB
Price	-165.38	-102.51	0.618
%	-17.33	-8.81	0.509
Wks	14	23	1.618
Vib	-11.81	-4.46	0.382
Days	98	161	1.643
VDay	-1.69	-0.64	0.382
Deg	99.31	155.83	1.569
VDeg	-1.67	-0.66	0.395
Sqr9	CD	-102.51	277

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OVERBOUGHT & OVERSOLD MARKETS (WAVE 3)

I have noted that on nearly all occasions, wave 3 in a BULL market impulse ends with the market in an **overbought** condition. The possibility exists that market indicators can remain overbought or oversold for long periods of time so they should not be used to buy or sell off unless the geometry is suitable.

Wave C or E in a correction often ends with the market in an **oversold** condition.

The best indicators for OVERBOUGHT and OVERSOLD are the Slow Stochastic and the DMI.

Slow Stochastic - Index 10 day
Overbought when above 90
Oversold when below 10.

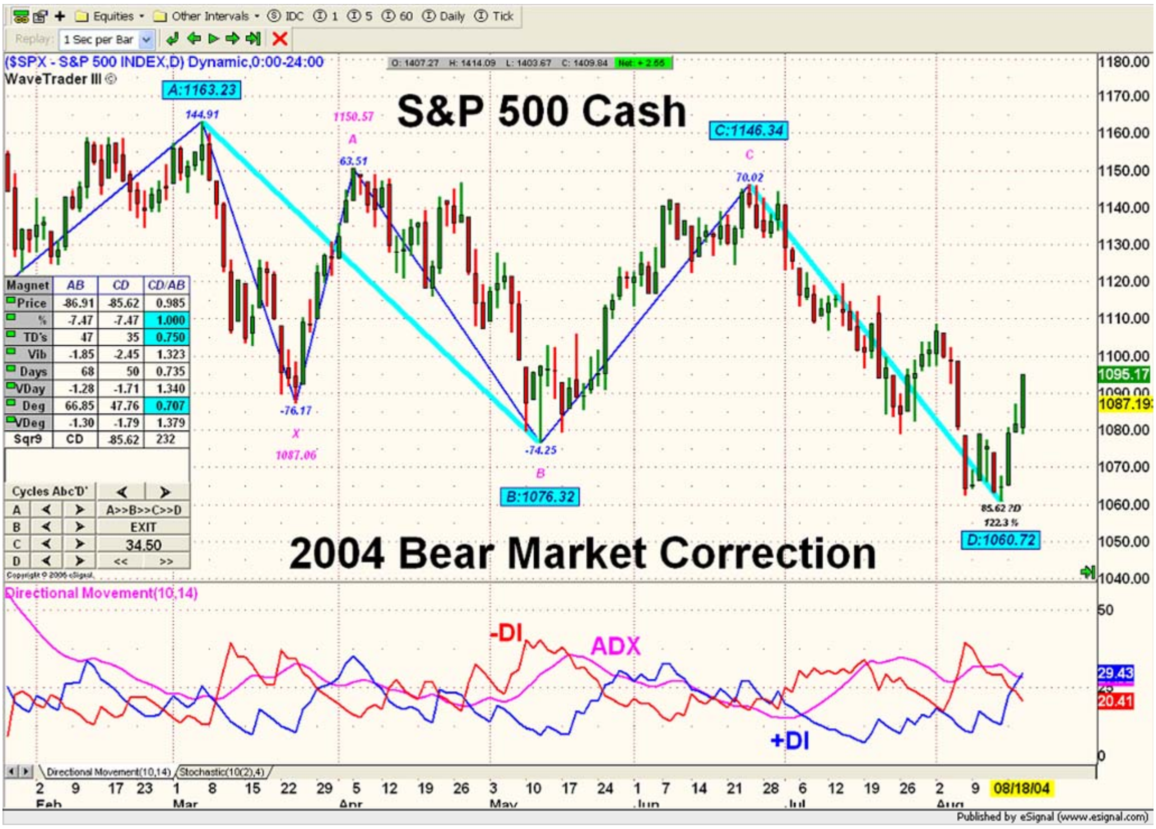
DMI - Directional Movement Index 10 day
Overbought when the + DI rises above 40 and the ADX rises above the +DI.

Extremely overbought when the -DI remains below 10 for 3 days or more.

Reverse applies to the DI's for Oversold signals.

The SS and the DMI are analysis concepts that are very popular amongst traders.

Monitoring trend indicators on a daily basis keeps one alert to the possibility of a change in trend in the relative wave degree.



Magnet	AB	CD	CD/AB
Price	-86.91	-85.62	0.985
%	-7.47	-7.47	1.000
TD's	47	35	0.750
Vib	-1.85	-2.45	1.323
Days	68	50	0.735
VDay	-1.28	-1.71	1.340
Deg	66.85	47.76	0.707
VDeg	-1.30	-1.79	1.379
Sqr9	CD	-85.62	232

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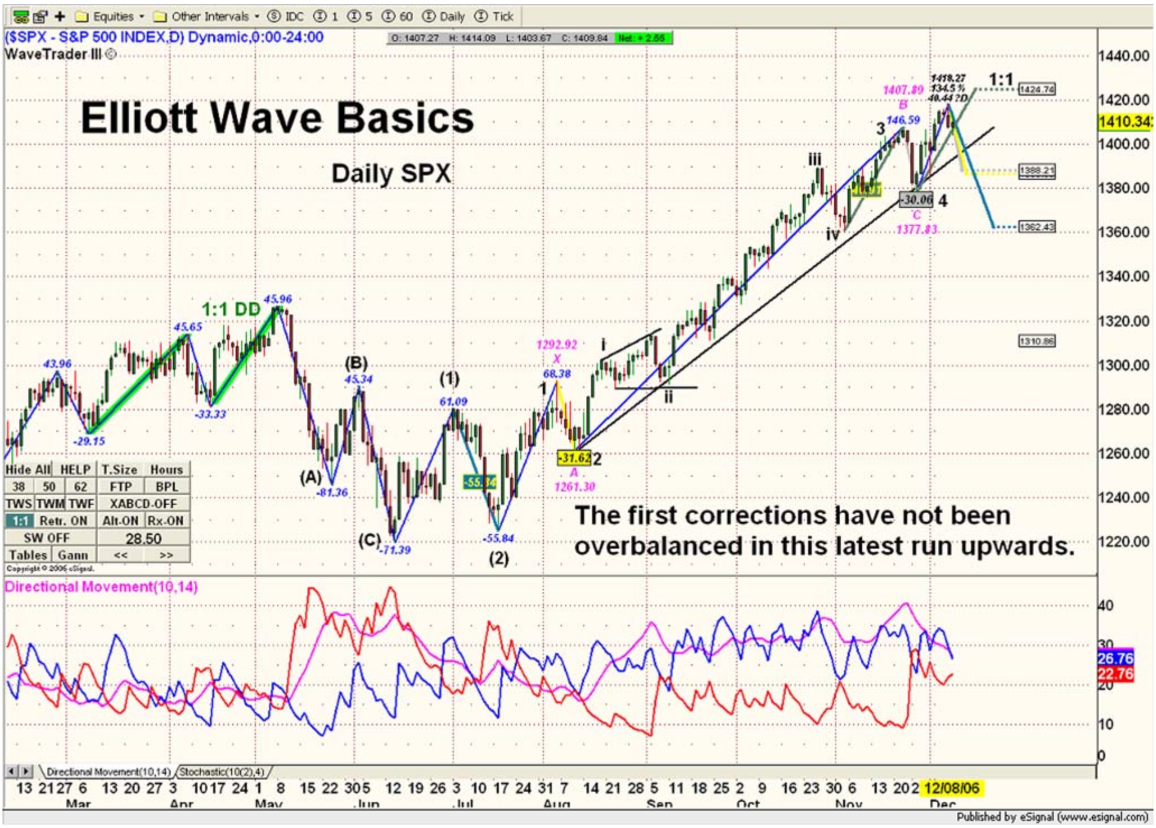
I have noticed over the years that the more people learn about Elliott Wave the more diverse their opinion of wave counts become.

KEEP IT SIMPLE!

The basic concept is that BULL markets will unfold in a series of 5 waves or sections. 3 will be up and 2 will be down. The end of each wave will be labelled 1-2-3-4-5. Waves 2 and 4 are corrective waves. Waves 1, 3, 5 are impulse waves.

IMPULSE WAVES can be subdivided into 5 waves of lesser degree. The corrections in waves of similar degree should never exceed the prior correction amplitude in the impulse wave for it to maintain momentum. If it does then you must consider a new wave of higher degree has begun to unfold and act accordingly.

Extensions can form in IMPULSE waves, i.e., instead of a conclusion after 5 waves the series could extend to 7 or 9 waves. Extensions can form in waves 1, 3 or 5 but never in all. You can keep your count going if the corrections keep reducing in amplitude.



Elliott Wave Basics

Daily SPX

The first corrections have not been overbalanced in this latest run upwards.

To start a wave count:

Get the beginning of the new wave series and then look for a place where you can identify a 3rd wave termination, somewhere where the market is overbought or oversold. Once these points are located work backwards and forwards for your wave count.

Do not try and force fit wave counts that break Elliott rules.

WAVE 4 CORRECTIONS

Wave 4 corrections will normally terminate within the area of the previous wave 4 of lesser degree. Often a wave 4 will terminate on a 38.2% price retracement of the previous existing impulse wave or 38.2% of the total advance or decline in the series.

This is an important observation and can help you set price objectives after identifying a wave 3 termination.

Rule of Alternation

Elliott Wave states that corrective patterns (waves) in a five wave sequence will ALTERNATE. i.e., waves 2 and 4 will take on a completely different appearance.

Elliott gave names to the patterns formed in corrective moves:-

Zig Zag
Complex Flat (Rectangle)
Double Three
Running Correction
Symmetrical Triangle
Ascending Triangle
Descending Triangle
Expanding Triangle

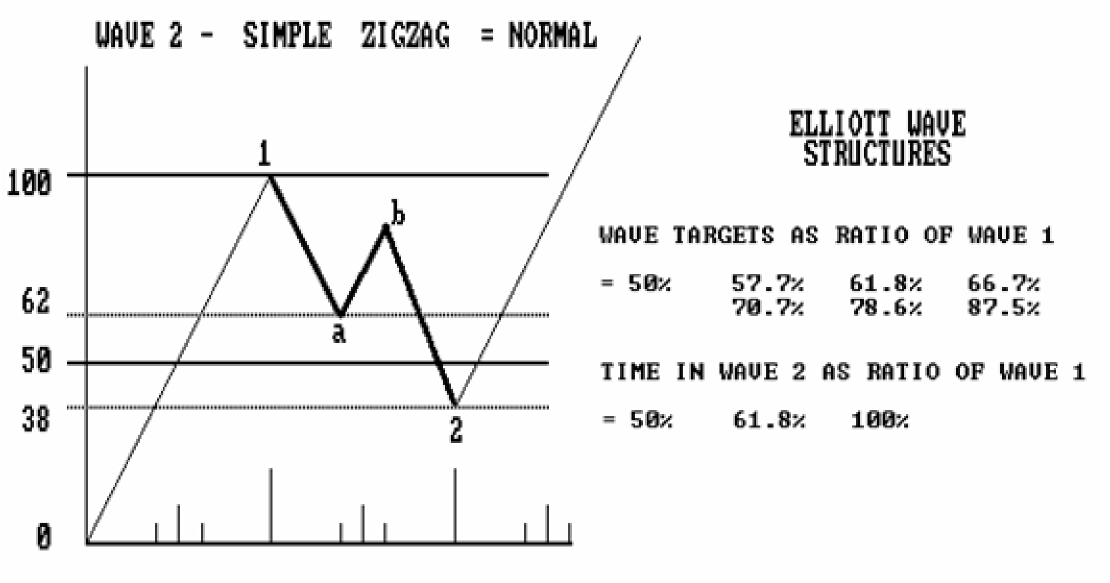
Triangles are far more common in 4th waves so one should expect the wave 2 to take the form of a simple zig zag, complex flat (rectangle), double three or running correction.

Wave 2

1. Wave 2 normally retraces at least 50% of all the gains made in the wave 1 and commonly 61.8 although it is possible to be a lot more.

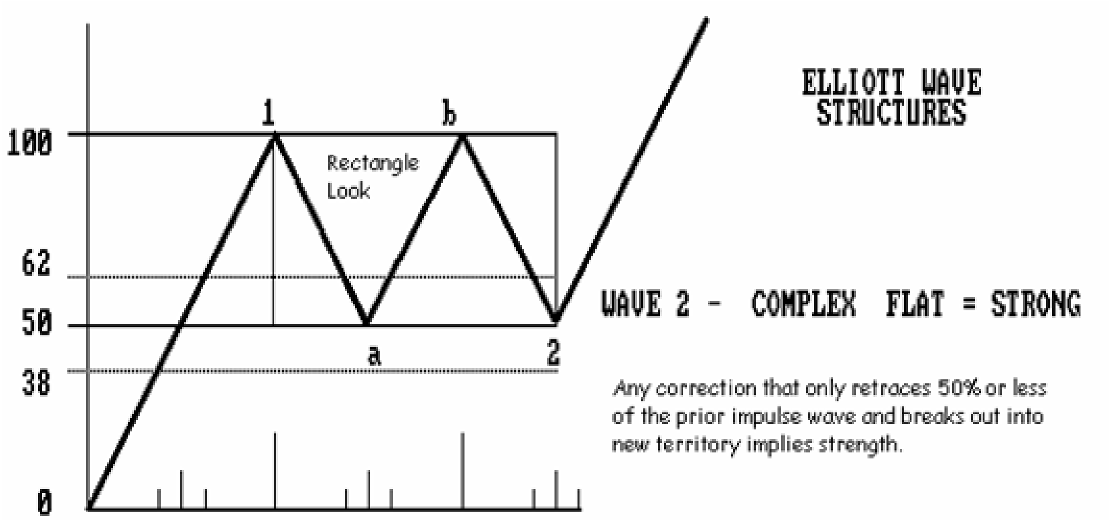
2. If Wave 2 is a Zig Zag it can often retrace 57.7%, 61.8%, 70.7%, 78.6%.

3. Wave 2 normally expires on a direct time relationship measured by the duration of Wave 1, 38.2%, 50% and 61.8% are the main ones to focus on. Always consider 100% of time up and down can be common.


WAVE 2 - SIMPLE ZIGZAG = NORMAL
ELLIOTT WAVE STRUCTURES
WAVE TARGETS AS RATIO OF WAVE 1
= 50% 57.7% 61.8% 66.7%
70.7% 78.6% 87.5%
TIME IN WAVE 2 AS RATIO OF WAVE 1
= 50% 61.8% 100%
100
62
50
38
0
1
b
a
2

Complex Flat (Rectangle):

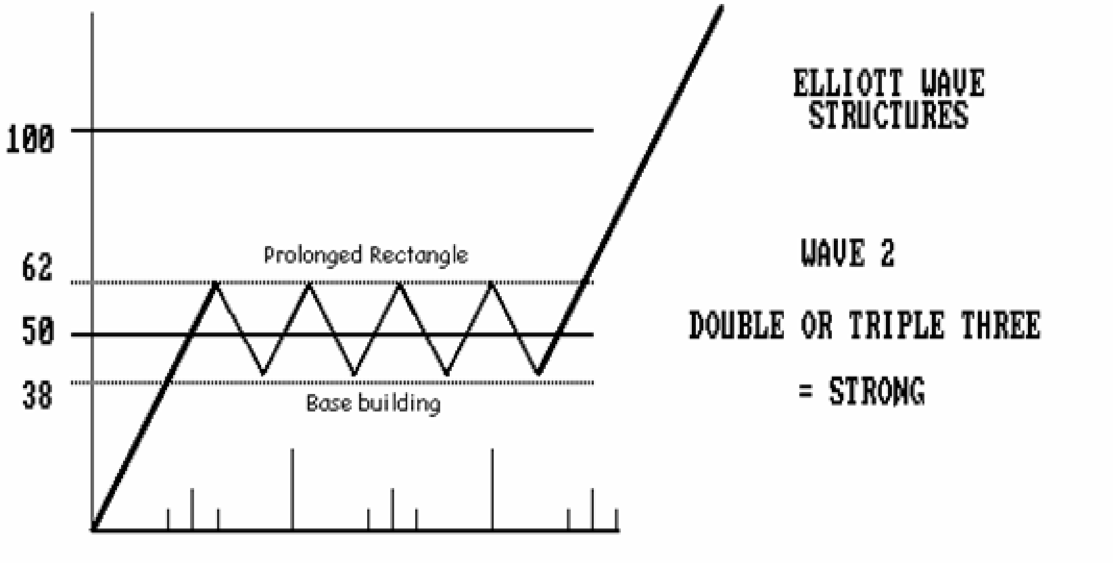
A complex flat correction implies power in the 3rd wave. A sideways movement in market price over an extended period implies accumulation. When the market eventually breaks to a new high it is doing so because there are more buyers than sellers.


ELLIOTT WAVE STRUCTURES
WAVE 2 - COMPLEX FLAT = STRONG
Rectangle Look
100
62
50
38
0
1
b
a
2

Any correction that only retraces 50% or less of the prior impulse wave and breaks out into new territory implies strength.

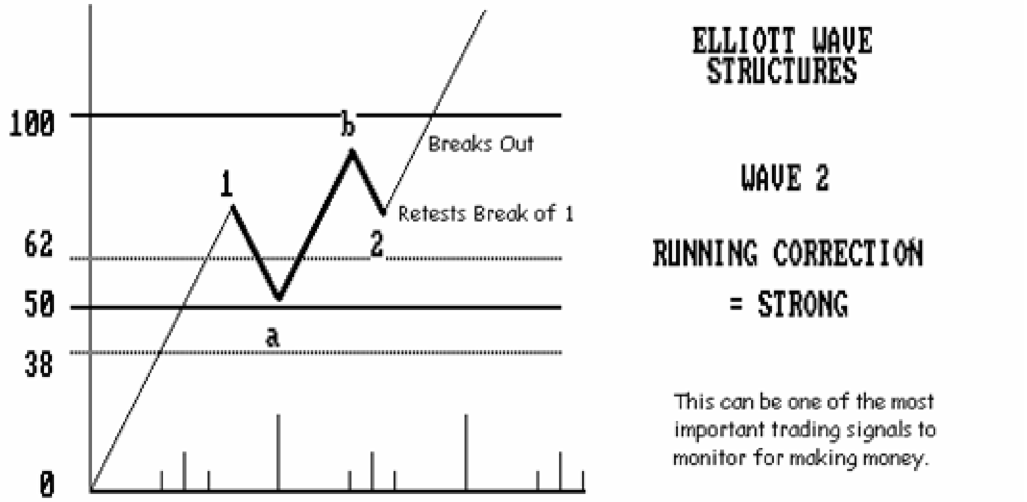
Double Three:

The double three wave 2 implies a longer period of accumulation; As the stock or commodity is sort after by the stronger players. Once prices break up to higher levels there will be little to no supply available, resulting in an explosive move in the wave 3.


ELLIOTT WAVE
STRUCTURES
100
62
50
38
Prolonged Rectangle
Base building
WAVE 2
DOUBLE OR TRIPLE THREE
= STRONG

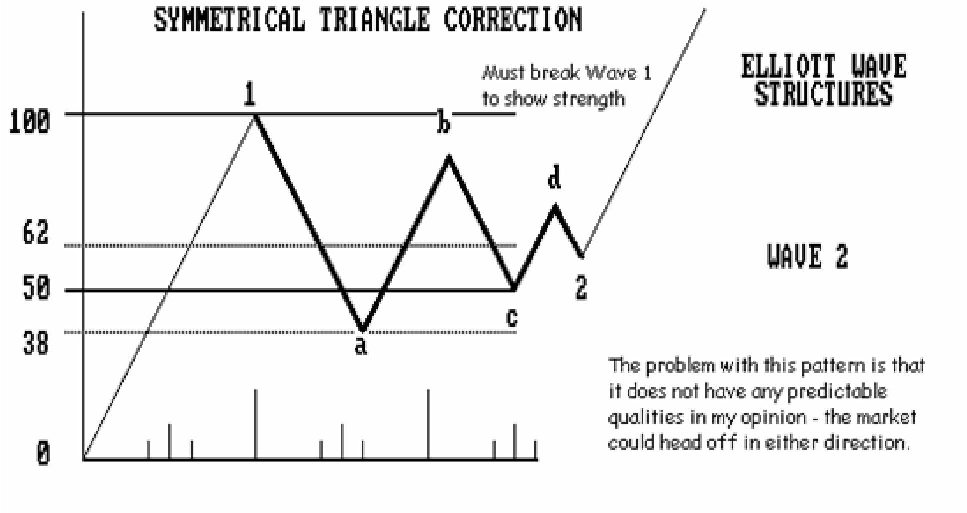
Running Correction:

A running correction occurs in an explosive market. Usually because some fundamental news incites a stampede of speculators to buy without worrying about what price they have to pay**.** The technical aspects are forgotten by most of the players as they just move into the market confirming the trend.
This pattern is a very strong indication that the market is moving higher.


ELLIOTT WAVE
STRUCTURES
100
62
50
38
0
1
b
a
2
Breaks Out
Retests Break of 1
WAVE 2
RUNNING CORRECTION
= STRONG
This can be one of the most
important trading signals to
monitor for making money.

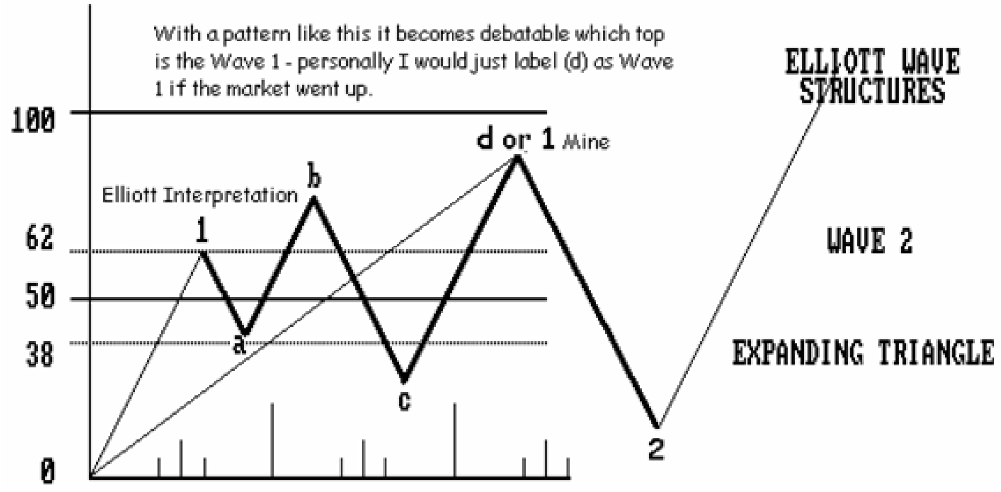
Symmetrical Triangle:

A symmetrical triangle occurs in a market where the buyers and sellers are fairly balanced. The battle for control is mixed as volumes continue to decline as the triangle is formed. Each of the legs in the triangle, a, b, c, d, e will contract in size inside the range of the prior leg. The future is unknown and the market could go either way, nevertheless the basic assumption is in the direction of W1.


SYMMETRICAL TRIANGLE CORRECTION
Must break Wave 1 to show strength
ELLIOTT WAVE STRUCTURES
100
62
50
38
0
1
b
d
c
a
2
WAVE 2
The problem with this pattern is that it does not have any predictable qualities in my opinion - the market could head off in either direction.

Expanding Triangle:

The expanding triangle more often than not forms over long periods of time. The market continues to trade in ever expanding ranges making higher highs in the rallies and lower lows in the declines. Expanding triangles are very hard to predict and only become obvious well after the outcome is known.


With a pattern like this it becomes debatable which top is the Wave 1 - personally I would just label (d) as Wave 1 if the market went up.
ELLIOTT WAVE STRUCTURES
100
62
50
38
0
d or 1 Mine
Elliott Interpretation
b
1
a
c
2
WAVE 2
EXPANDING TRIANGLE

Bullish Consensus

Perhaps the most important consideration of Elliott Wave is how it takes the bullish consensus into account as a trend indicator. Markets will change direction when one side or the other becomes severely over balanced.

Each wave formation holds a character all of its own based on the supply and demand factors present at the time.

I have noted in recent years the patterns are becoming far more complex due to the speed of communication and the sophistication of analysis techniques now available, and aided by the development in computer power. Computer trading systems are playing a big part in the daily market pressures.

With today's computer power, volumes of trade are possible that were never experienced in Elliott's day. Day traders have become a far greater influence over the daily market trends as they account for over 85% of the daily volumes.

My Summary of Elliott Wave Strong Points

1. **Wave 4's normally terminate in the area of the 4th wave of lesser degree.**
2. **Wave 4's generally retrace 38.2% of prior expansions.**
3. **Wave 3's nearly always terminate with overbought or oversold trend indicator readings.**
4. **Wave 3's are usually the longest and strongest waves, but never the shortest.**
5. **Alternation between corrective waves will be a guide to the position of the market.**
6. **Corrections in trends of similar degree reduce in time and price amplitude as the move progresses.**
7. **Time and Price within future trends will be working out ratio relationships to trends that preceded them.**
8. **One of Elliott's main points was that bear trends endured for 38.2%, 50% or 61.8% of the time of the prior advance.**
9. **Price retraced in major bear trends would be 50% to 61.8% of the price amplitude of the preceding bull trend or a percentage decline of some significance such as 50% decline in value.**

In a bull market the total advance before expiry will contain at least 3 impulse trends and sometimes 4 or 5.

Chapter 18

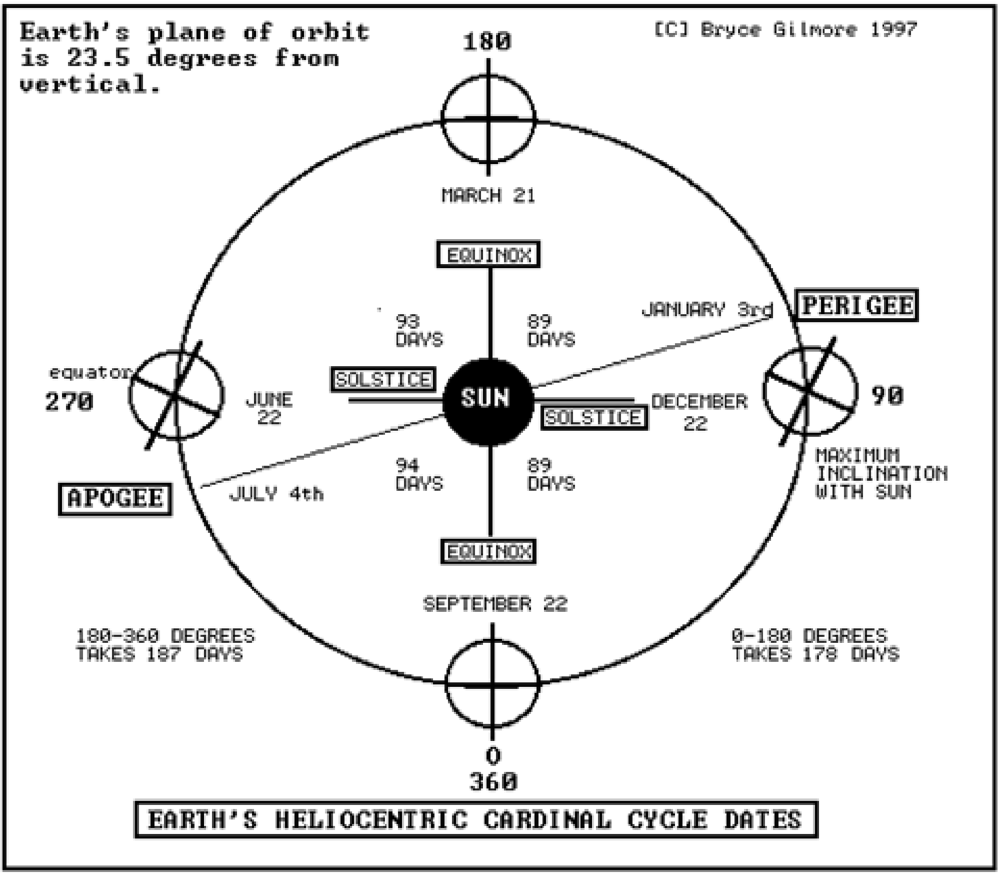
Gann Techniques: (reprinted from my earlier material)

Time by Degrees

W.D. Gann I think can be credited for the introduction of time by degrees to the world of technical analysis. Gann often mentioned the square of 360 and the divisions and multiples of 360 in his work. He was referring to the degrees in the circle of 1 year.

A year is the dominant natural cycle that influences our lives and our activities. In a solar year we have 365 1/4 days but the circle of 1 year is 360 degrees and it can be subdivided into 4 seasons of 90 degrees each.

Time by degrees is not a simple ratio of days in the year, e.g., you cannot calculate 1 degree as 365 divided by 360. Time by degrees must be calculated from the position of the Earth relative to the Sun in its orbit of 360 degrees. 1 day is only the time it takes for the Earth to spin on its axis.


Earth's plane of orbit is 23.5 degrees from vertical.
180
[C] Bryce Gilmore 1997
MARCH 21
EQUINOX
93 DAYS
89 DAYS
JANUARY 3rd
PERIGEE
equator
270
JUNE 22
SOLSTICE
SUN
SOLSTICE
DECEMBER 22
90
MAXIMUM INCLINATION WITH SUN
APOGEE
JULY 4th
94 DAYS
89 DAYS
EQUINOX
SEPTEMBER 22
180-360 DEGREES TAKES 187 DAYS
0-180 DEGREES TAKES 178 DAYS
0
360
EARTH'S HELIOCENTRIC CARDINAL CYCLE DATES

The time relationship between days and degrees speeds up and slows down. The Earth moves through an elliptical orbit around the Sun, not a perfect circle. As a result the relationship between days and degrees speeds up as the Earth is moving closer to the Sun and slows down as the Earth is moving away from the Sun. The two points in the elliptical orbit where the Earth is closest and furthermost from the Sun are known as the PERIGEE and the APOGEE.

The seasons of the year are determined by the TILT or AXIS of the Earth. As the Earth circles around the Sun the direct path of the Suns rays move in relationship to the surface of the Earth. The hours of sunlight vary in length from day to day.

If you live in the southern hemisphere the shortest day is the June Solstice and the longest day is the December Solstice. On the Equinox days the daylight hours are equal to the hours of darkness.

Due to the elliptical orbit of the Earth around the Sun the relationship between days and degrees vary.

1-90 degrees	91-180 degrees	181-270 degrees	271-360 degrees
89 days	89 days	93 days	94 days

If you are comparing a time cycle that occurred between 0-180 degrees and one that occurred between 180-360 degrees the calendar day counts will vary dramatically with the degree counts.

Counting time by degrees keeps seasonal time periods uniform. To calculate TIME BY DEGREES requires the use of a planetary ephemeris.

Gann Critical Seasonal Dates

Gann taught that the cardinal points of the year were important to watch for change in trend.

The **Equinox** and **Solstice** as well as the **Perigee** and **Apogee** days are natural cyclic events.

If you study past markets you will find an abundance of trend changes falling on or close to these dates.

Gann Anniversary Dates

Gann also taught that it was important to watch the anniversary dates of past trend change dates in any market for a sign of a future reversal in trend.

Counting Time between Change in Trend dates

Gann taught that TIME COUNTS using a square number series could often pinpoint future dates where change in trend will occur.

Time counts in days, degrees, weeks, months and years are made from extreme intermediate degree market highs and lows.

Gann taught that by counting TIME BY DEGREES, in divisions of a year of 360 degrees, from prior market highs and lows of importance could produce clusters of future dates where a change in trend could occur.

Gann's square of 52 was a weekly square used on weekly charts, i.e., divisions of a year. Gann’s square of 90 is ¼ of a year or 360. His square of 90 weeks relates to 1.732 years (root of 3). Gann’s square of 144 is 1/5th of 720 degrees or 2 years.

Progressions of time in divisions of 360 became important to Gann in measuring potential time between changes of trend in markets. From my subsequent studies I have found that many changes in trend have in fact fallen exactly on these time counts from prior change in trend dates.

The significant ones I have noted have been: -

90	120	**180**	240	270	**360**	450	540	630	720
144	**288**	**432**	**576**	**720**	864	1008	1152	1296	1440

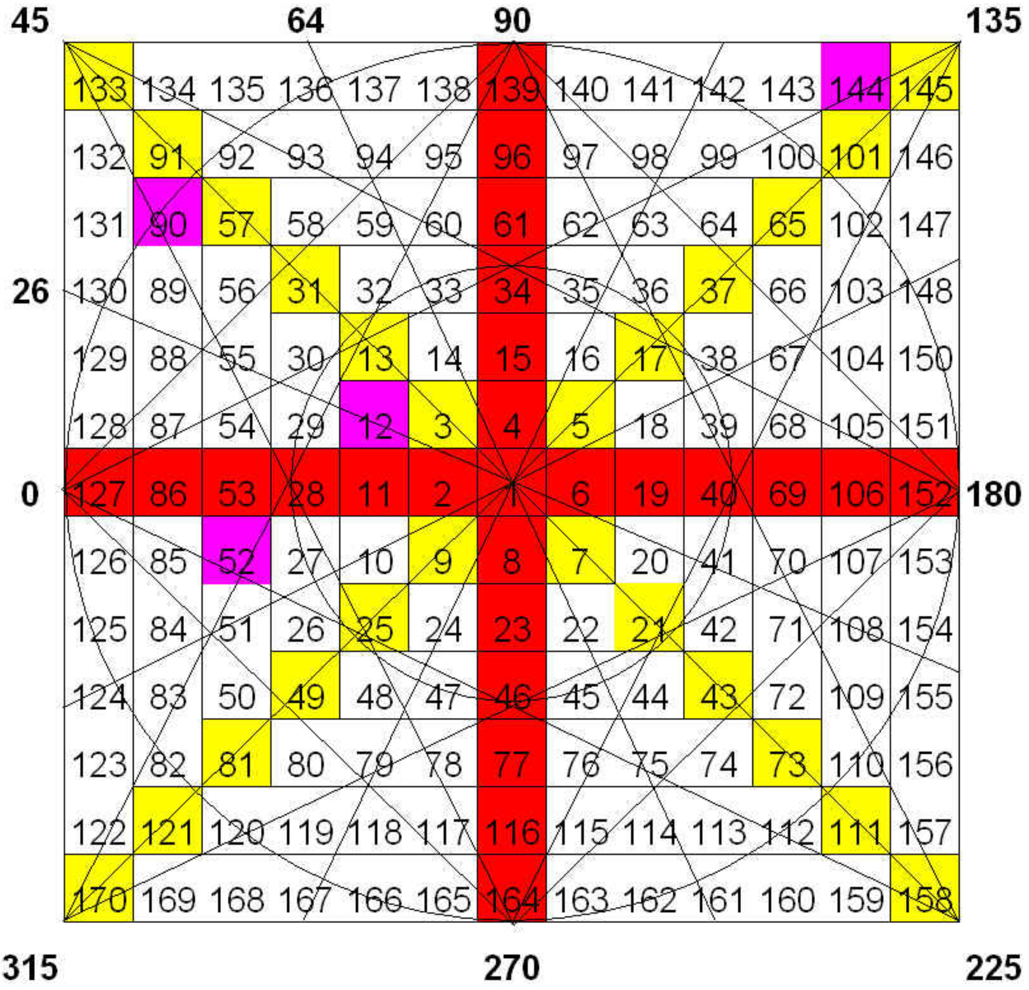
TIME BY DEGREE COUNTS

This methodology has become a trademark for Gann's supposed success in predicting a future change in trend date for any free trading market. Although the calculations have some validity in nature they must also be qualified as to their true value. I have found many change in trend tops or bottoms in markets conform to some of Gann's time counts. I have also found that many did not and because of other factors it was reasonable to expect they wouldn’t at the time.

To count off TIME BY DEGREES Gann style all one has to do is calculate the future date ? degrees from a known high or low date. If you do extrapolate time counts from numerous past highs and lows, you can construct a table of dates that will highlight in date clusters. These cluster dates are considered a Gann warning date where change in trend may occur. 90&180 is a popular count.

Squares	30	60	**90**	120	150	**180**	Etc.
Squares	45	**90**	135	**180**	225	270	Etc.

GANN SQUARE OF 9



133	134	135	136	137	138	139	140	141	142	143	144	145
132	91	92	93	94	95	96	97	98	99	100	101	146
131	90	57	58	59	60	61	62	63	64	65	102	147
130	89	56	31	32	33	34	35	36	37	66	103	148
129	88	55	30	13	14	15	16	17	38	67	104	150
128	87	54	29	12	3	4	5	18	39	68	105	151
127	86	53	28	11	2	1	6	19	40	69	106	152
126	85	52	27	10	9	8	7	20	41	70	107	153
125	84	51	26	25	24	23	22	21	42	71	108	154
124	83	50	49	48	47	46	45	44	43	72	109	155
123	82	81	80	79	78	77	76	75	74	73	110	156
122	121	120	119	118	117	116	115	114	113	112	111	157
170	169	168	167	166	165	164	163	162	161	160	159	158

Probably the most believed tool of Gann's being used in the markets today is his square of 9. Price moves out from the centre and starts a circle.

Gann taught that trends moved in price increments related to the cardinal angles in the circle on the square of 9. He considered that when price had moved 45, 90, 180, 135, 180, 225, 270, 315 or 360 degrees from its last origin it would run into resistance or support – in Gann's words the price was "square" at those levels.

The degrees on the circle of the Square of 9 can be calculated using the square roots of numbers.
For instance: -

No#	9	16	25	36	49	64	81
Root	3	4	5	6	7	8	9
Degrees Apart	0	180	360	540	720	900	1080

GANN SWING CHARTS

The Gann swing chart is a simple indicator to keep you aware of the short-term trend.

Gann recommended 2 types of swing charts.

2 day swing	3 day swing

The swing chart swings up and down depending on the current days trading range when compared with the prior 2 or 3 days trading range.

The rules for the 2 or 3-day chart are as follows: -

1	The trend is up when the market makes higher highs without crossing below the prior 2 or 3 day low
2	The trend is down when the market makes lower lows without crossing above the prior 2 or 3 day high.
3	When prices are very active, i.e., wide range days in a blow off move you can record a swing on a 1 day reaction for the 2 day chart.
4	When prices are very active you can record a swing on the 3 day chart if it makes 3 consecutive days with new lows or highs.

Gann's Over-balancing of price.

In an advancing market watch the price ranges of the counter trend moves.

Once the next reaction has exceeded the price range of the previous, price is said to be over-balanced and the trend is changing. The opposite works in a falling market. As each trend matures reactions should be reducing in both time and price.

OTHER NUMBERS GANN MENTIONED related to time & price

SQUARES AND POWERS OF NUMBERS 3 to 7

No#	Power ^2	Power ^3	Power ^4	Power ^5	Power ^6
3	9	27	81	243	729
4	16	64	256	1024	4096
5	25	125	625	3125	
6	36	216	1296		
7	49	343	2401		

The problem is that when you start counting all these numbers off former highs and lows they become confusing as to their possible validity as a technical indicator.

GANN SQUARING PRICE INTO TIME & TIME INTO PRICE

One of Gann's techniques of analysis for determining market tops and bottoms was to "square" price into time and time into price. When one or the other became square he would look at it as a signal for a change in trend.

There are 3 distinct approaches: -

1. Squaring a high or low price forward in time.

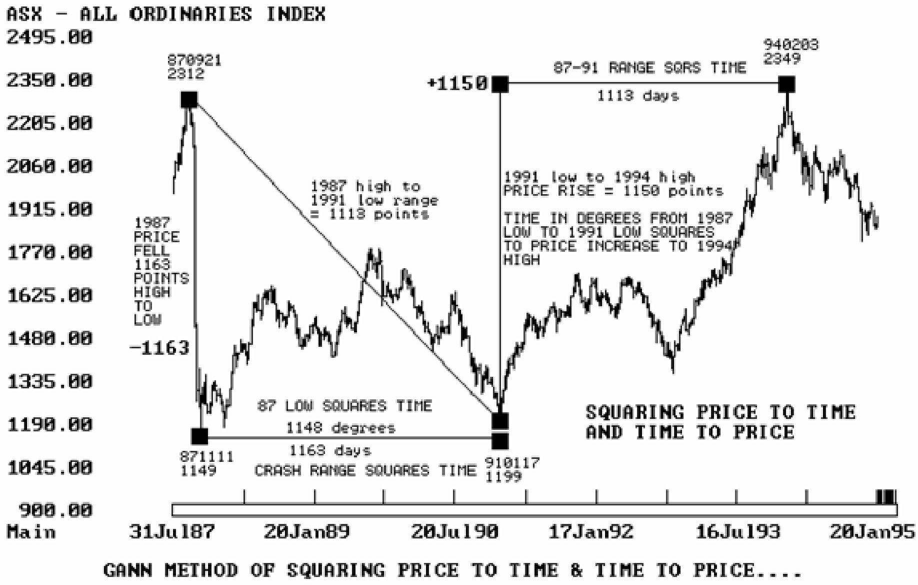
In the example below the All Ord’s 1987 low was 1149. The first "square" of 1149 counted in "degrees" fell within 1 day of the 1991 low.

2. Squaring a price range forward in time.

There are 2 examples below, the points decline between the 1987 high and the 1987 low was 1163 points. The calendar day count between the 1987 low and the 1991 low was 1163 days exactly. The price range between the 1987 high and the 1991 low was 1113 points, the calendar days from the 1991 low to the 1994 high was 1113 days exactly.

3. Squaring time between highs and lows forward in price units.

My first example is below, the time between the 1987 low and the 1991 low came out at 1148 degrees. The point’s rise to the 1994 high was 1150 points.



When squaring time into price units you can take the time between two market swing dates. The price units are calculated from the ending date of the time cycle you are going to "square".

My comments: -

I have been monitoring these analysis methods of Gann’s for years and years and even tho I can find examples to demonstrate them occasionally I don’t feel they are going to advantage anyone as a primary trading tool.

I can see more structure in the market using my geometric approach to dynamic time and price analysis.

The problem with the Gann approach to time squaring future price or price squaring future time is that you can only use them on certain markets that are trading at price levels which allow them to fit.

For instance the methods seem to work OK in complexes such as the Grains and the All Ordinaries but they seem to have no validity in markets like the currencies for example. Of course they might have if you could isolate what the degree of price was that related to time. A commodity that has a small price range may have to be reduced to 1/8th increments or decimal places to compare the squaring of time results.

This becomes a tedious course to follow as we have no idea what 1 unit of price to use that would be reliable against 1 unit of time.

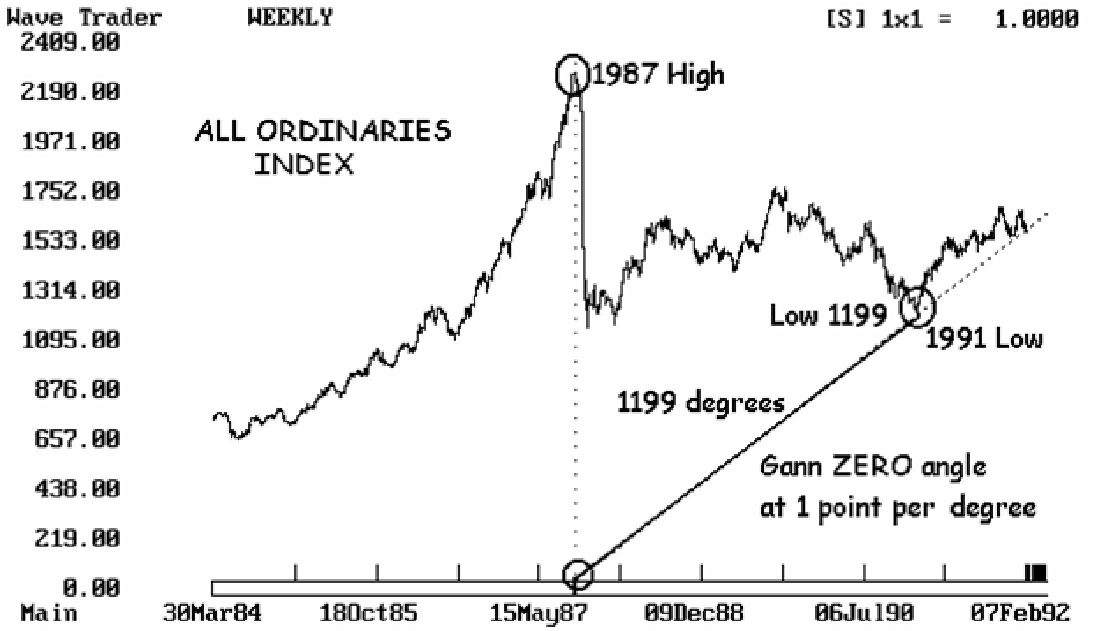
GANN ZERO ANGLES

Gann zero angles are another technique for squaring price to time.

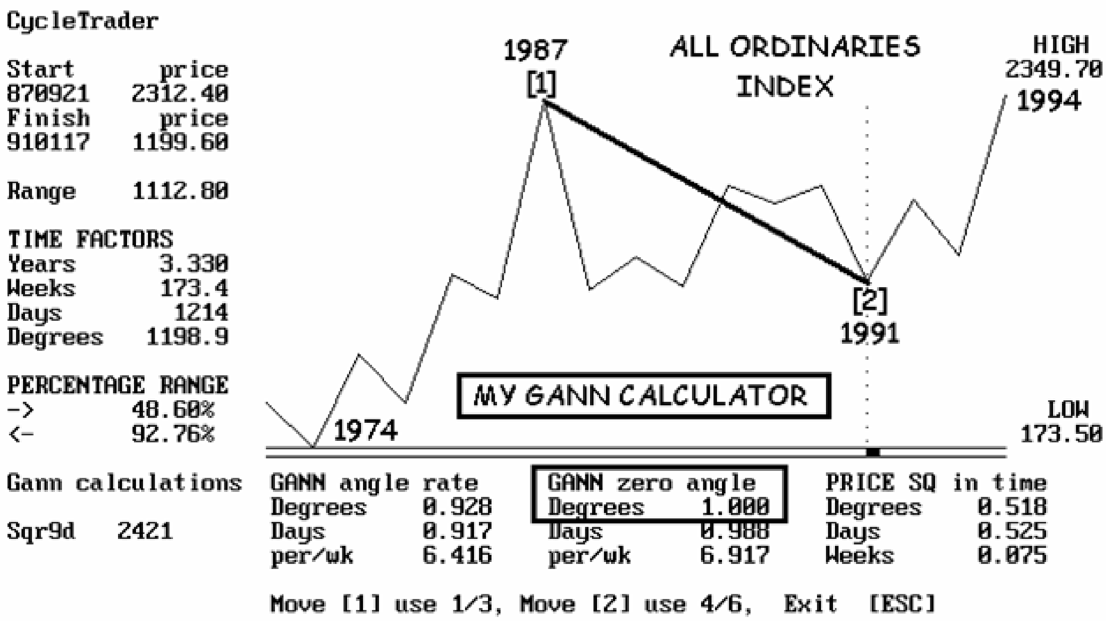
The way this works is that the price being tested is a value that equals a time from some other past important chart point.

For instance the All Ordinaries extreme 1991 low was 1199 points and it was 1199 degrees elapsed time from the date of the 1987 high (the then all time high).

I have found examples of this technique working in the past but they are so few and far between. I wouldn’t use or recommend the method as a primary analysis tool. But I still monitor the major campaign swings to check the method.



I have devised a fast method to check all the Gann teachings in my DOS swing chart software. I don't work them out in advance, all I do is check them when a new high or low is forming that may be important.


1987
[1]
ALL ORDINARIES INDEX
HIGH
2349.70
1994
[2]
1991
MY GANN CALCULATOR
1974
LOW
173.50

```
CycleTrader

Start        price
870921     2312.40
Finish       price
910117     1199.60

Range      1112.80

TIME FACTORS
Years        3.330
Weeks        173.4
Days          1214
Degrees     1198.9

PERCENTAGE RANGE
->          48.60%
<-          92.76%

Gann calculations   GANN angle rate      GANN zero angle      PRICE SQ in time
                    Degrees     0.928    Degrees     1.000    Degrees     0.518
Sqr9d    2421       Days        0.917    Days        0.988    Days        0.525
                    per/wk      6.416    per/wk      6.917    Weeks       0.075

                    Move [1] use 1/3, Move [2] use 4/6,  Exit  [ESC]
```

It often amazes people how I knew these things the day they happened or the day after.

All my calculations are to the day or degree. I believe in accuracy if you are going to do something properly. During the period of these examples I am showing you, the self proclaimed Gann Guru in Australia was teaching students to plot everything by hand on 5 foot high charts.

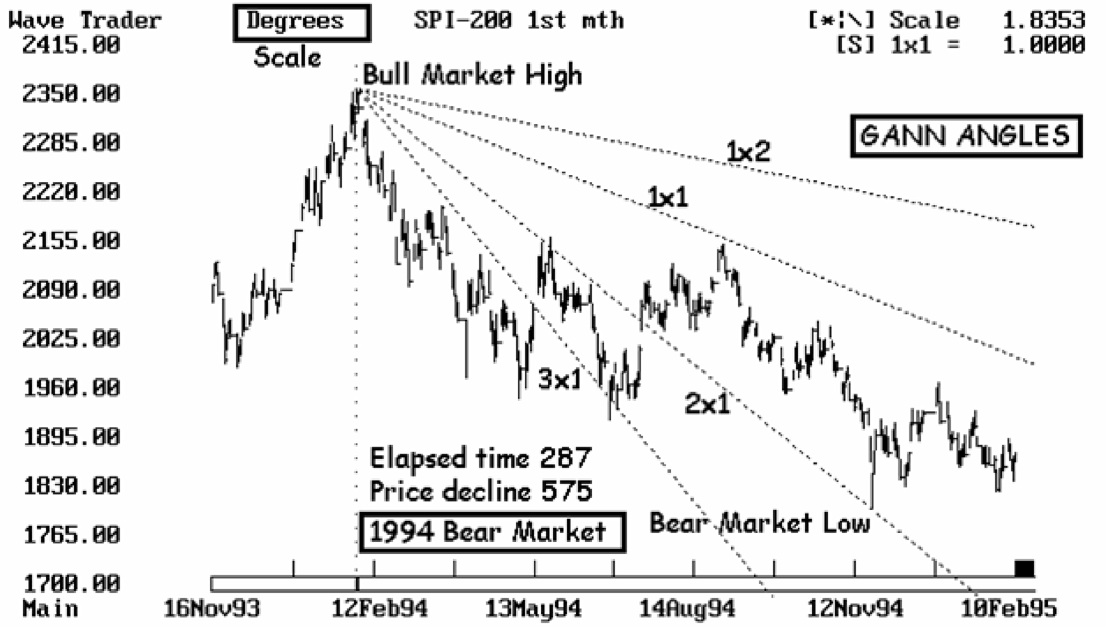
GANN ANGLES

Contrary to popular belief Gann angles are just another method for visually squaring price to time.

Most Gann students are using the technique incorrectly, they think that the Gann 1x1, 1x2, 1x3 are market support angles in an uptrend and resistance in a downtrend. Well, they are no such thing!

They may have some self-fulfilling tendency from time to time but they are really not support or resistance angles. You can work that out by the number of times a longer-term trend will cross backwards and forwards along the angles, finally the trend terminates itself on one of the them.

A standard Gann 1x1 is drawn on a chart at the rate of 1 unit of time to 1 unit of price. A 2x1 is two units of price to one unit of time.



The value in the angles is purely mathematical as Gann taught students to look for a termination of a trend when time and price became square.

Now “square” could be represented by a trend that terminates on 2 units of price to 1 degree of time, 1 unit of price to 1 degree of time and even ½ a unit of price to 1 degree of time.

I can even show you examples of time and price squaring in other ratios of the sacred canon, i.e., 1.618 units of price to 1 degree of time or 1.414 units of price to 1 degree of time.

The possibilities are endless

GANN PRICE RETRACEMENT LEVELS OF A PRIOR RANGE

This technique of analysis allows you to relate price range to price range geometrically and is the most popular Gann tool used today.

The units risen in a bull market are related to the units fallen in a bear market or vice versa. This technique is useful in any time frame, relationships can be worked out between moves which occur very short term or long term.

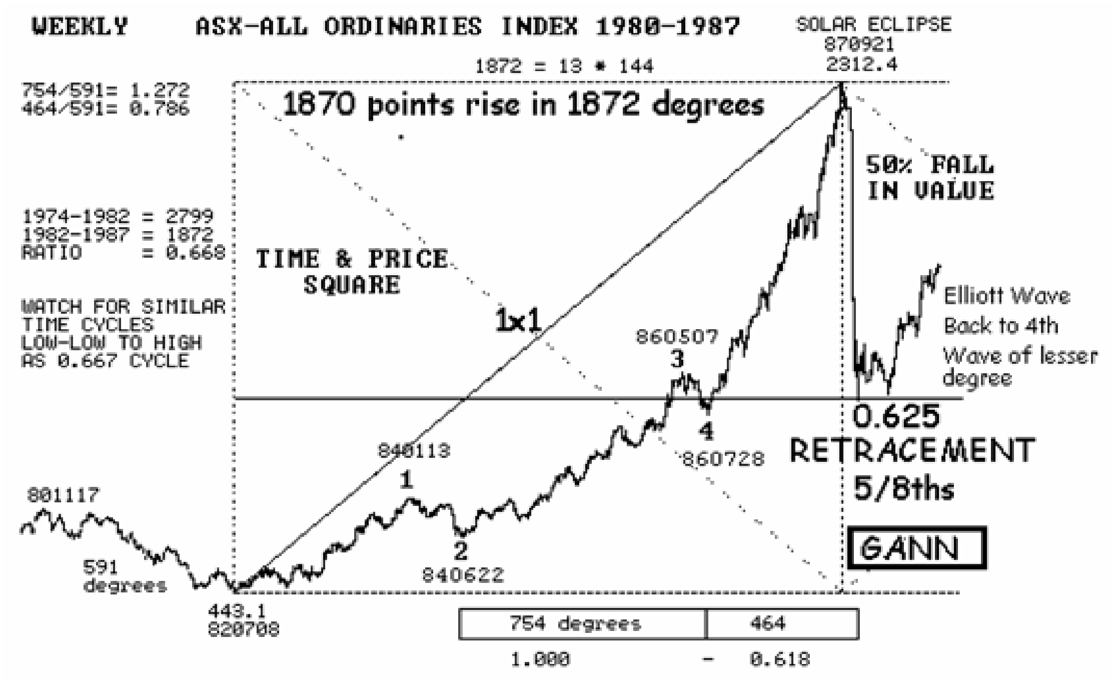
Gann taught students that ratio retracements of prior ranges were very important for determining change of trend and worked with 1/8ths and 1/3rds of the prior range.

The 50% level is the most important level of any prior range according to Gann. 50% is also known as the balance point.

Unfortunately the World works to an unfolding natural geometry and often requires other relationships for the continuing price structure to remain geometric.

Elliott Wave recommends ratios of 0.382, 0.50, 0.618 as the most important.

We have found there is another element of geometry involved and ratios of 0.577 and 0.707 that are related harmonically to the square and the cube can be equally important under certain circumstances.



GANN PERCENTAGE CHANGE TO PRICE

Any square value change in price was also a price target for a termination.

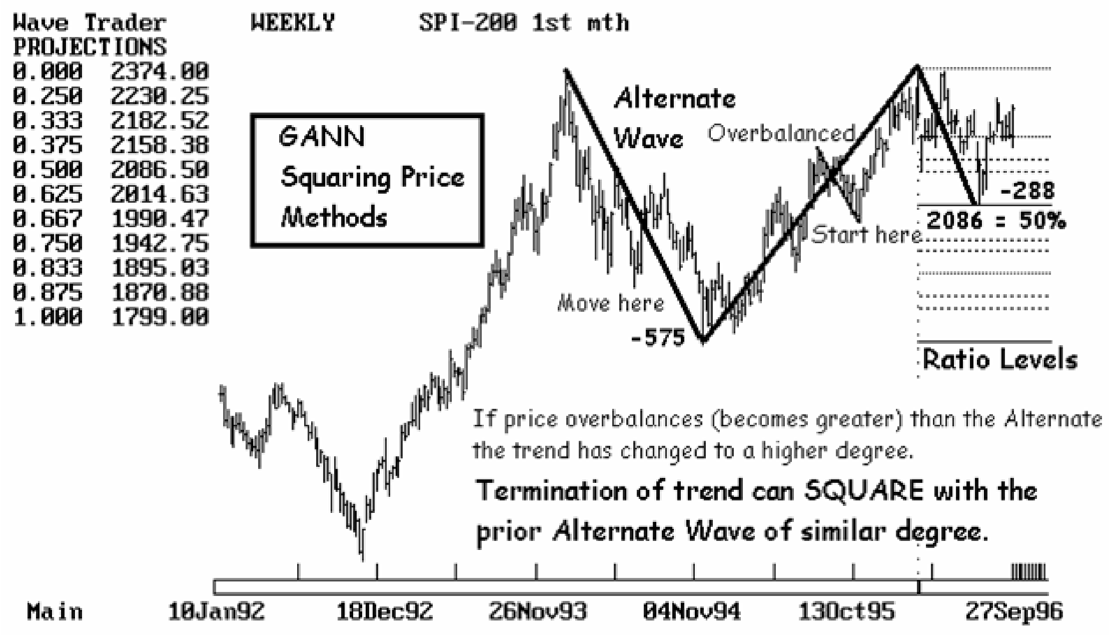
GANN ALTERNATE RANGE LEVELS

Price ranges between alternate trends of similar degree will often relate when a market terminates trend without making any identifiable retracement level of the prior range.

Price can “square” either directly, as in a retracement, or it can square with the alternate wave, i.e., the wave prior of similar degree heading in the same direction. One way or the other support or resistance will be clear.

To calculate possible support or resistance levels in advance project ratios of the alternate trend from the beginning of the current trend.

A keen Gann student will always know in advance the Alternate wave levels and the retracement levels in any market campaign.



If price overbalances (becomes greater) than the Alternate the trend has changed to a higher degree.

Termination of trend can SQUARE with the prior Alternate Wave of similar degree.

When the move down began you would be using the prior smaller correction wave, once it was over balanced you would move back in wave degree to an Alternate wave that was greater in amplitude.

The secret to identifying market geometry is in the evaluation of which waves relate in similar degree. If you can identify those relating with perfect geometry it is then possible to forecast the future.

The future is only going to be a repetition of the past in similar degree, the ratio relationships may rotate from the square to the golden mean or to the circle geometry of the pyramid – but they will relate geometrically as the market patterns unfold.

PRICE RANGES unfolding IN TRENDS OF SIMILAR DEGREE

Unfolding price ranges can relate to each other equally or they can expand. If they expand they are said to be impulsive.

Each impulse range can relate by a ratio of the preceding range of similar degree.

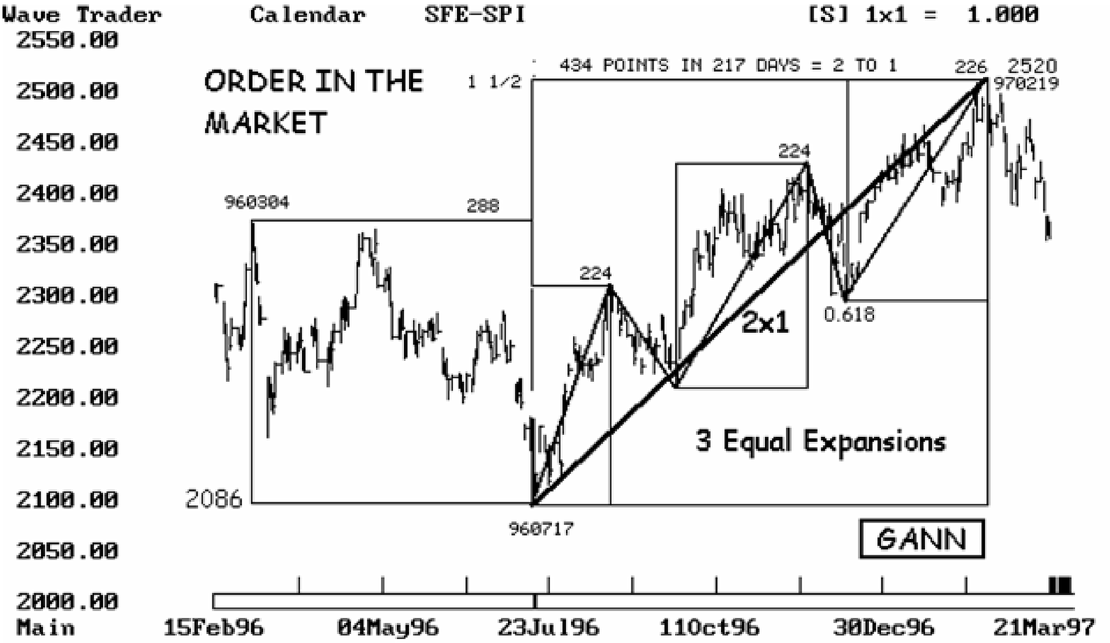
In the example below of the Sydney Share Price Index expanding upwards from the 2086 low, 17th July 1996 to the 2520 high (2520 = 7x360), 19th February 1997, there were three distinct low to high ranges of equal proportion.

After the first two expansions of 224 points were recognised, myself and several analysts I know calculated that 2518 would equal a triple wave range of similar degree when measured from the take off point 13th December 1996 at 2294. We realised that the market would suffer selling at that point.

The fact that 2518 fitted in with all the other price projections confirmed it as a very important level.

When the 2520 high was made time and price squared at 2 points per day from the 17th July 1996 low, another important Gann observation!

When you are looking for additional confirmation of price squaring you can monitor both the cash market and the futures contract, it will help you immensely. But this one was the set up to end all set ups.



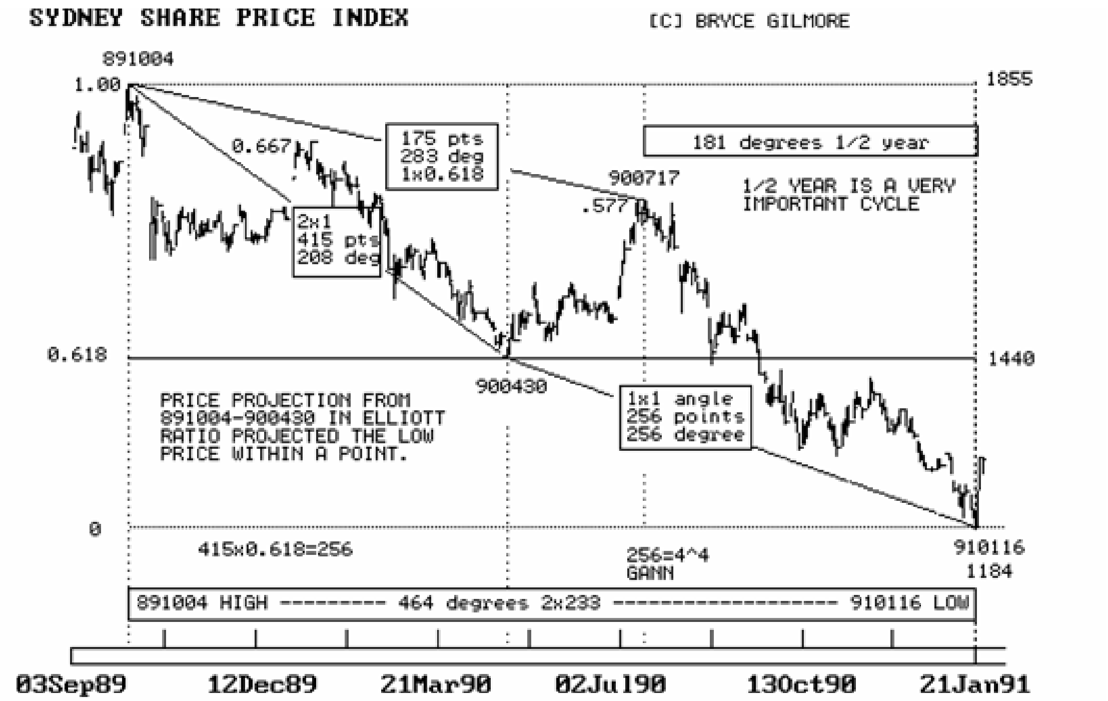
SFE - Sydney Share Price Index - 1991 Low

It is important to understand the intricate ways markets can relate in time and price. Studying the works of W.D. Gann and R.N. Elliott opened my eyes and I will never forget it. Since then I have taken these theories to a higher level.

By combining both the Gann & Elliott disciplines, together with pattern and trend and long-term cycle analysis it is possible to explain every major market reversal very close to it actually beginning.

At the time of the 1991 low in the All Ordinaries Index I noted the following time and price relationships within the Share Price Index, which is the futures derivative. I have often mentioned these relationships to students, but, this is the first time I have put them into print. If you study everything contained in this text you will be prepared when similar situations repeat in the future.

Use my examples to get your ideas on what to look for when a market changes trend, if you explore the past it will open your eyes to the power possible from this knowledge.



1/2 YEAR IS A VERY IMPORTANT CYCLE

PRICE PROJECTION FROM 891004-900430 IN ELLIOTT RATIO PROJECTED THE LOW PRICE WITHIN A POINT.

GANN: Each market move is working out some time and price relationship to the past, markets will continue to do this forever in the future.

Keep a record of important events and you will learn to anticipate new ones.

Since the 1987 crash the Sydney Share Price Index has traded through 3 major bear markets.
It's important for the future to note that the 1992 & 1994 bear markets were ratios in time of the 1989-1991 bear market. Any future bear market should relate in time, by ratio, to one of these prior bear markets.

I know in the future we will experience another bear market similar to one of these, especially in regards to a large price decline. Once the next bear market takes hold I will be looking at future dates that fall on ratios of time to one of these bear markets.

At most major market reversals you will find perfect cycles of time generated from prior highs and lows. Often but not always the TIME or PRICE counts fall on important numbers mentioned.

The problem with time counting the Gann way using static numbers from prior swing highs and lows is when you put them altogether you will end up with a “Gann pressure day” for everyday of the year.

Gann repeatedly states in his writings and books, "The future is just a repetition of the past; there is nothing new under the Sun."

The future is working out time and price to everything which went before in similar degree.

Gann implies if you are prepared to study the past, then, the future will explain itself as it unfolds. This is perfectly true as human nature does not change.

My point of view is this:

Many of the Gann techniques are superfluous as a to aid in your trading.

Nevertheless Gann’s overbalancing and his 1:1 equal swings rules, price retracements and alternate wave rules, also the percentage change teachings, together with his swing charting approach are pearls of wisdom.

The original so called “Gann Secrets” were promoted by Billy Jones, who purchased Gann’s library from Lambert his partner and publisher were grossly overstated; mainly because the promoter invented a story that Gann charged $5000 for a weekend course in 1954 and was supposed to have made over $50,000,000 in his trading career.

There is no evidence to verify any of this and knowing Billy Jones (who is deceased now), one has to take it all with a grain of salt.

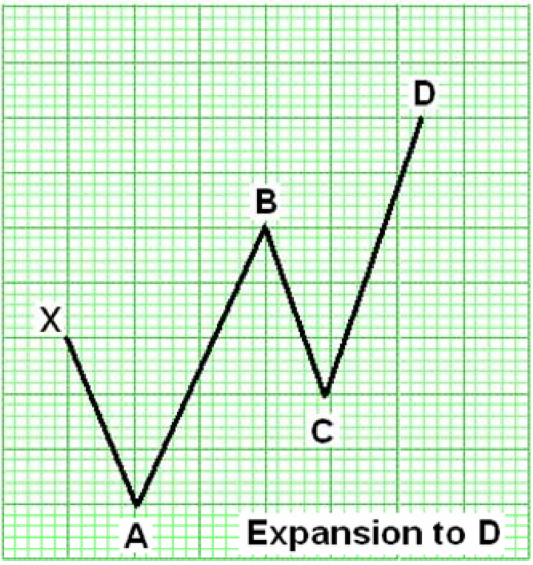
So take it for what it is worth, you could have paid $5000 to find out what I have basically just told you for free.

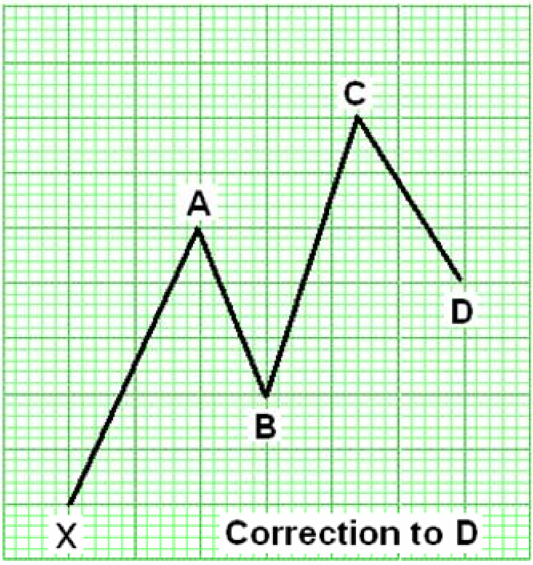
Chapter 19

XABCD Tables:

- **These tables are designed to immediately highlight the internal ratios between the previous 3 swings and the current swing in progress.**
- **Some combinations of GEOMETRY are extremely important in Elliott Wave Analysis and have important implications for traders who use the Elliott Wave Methodology to make trading decisions.**
- **Some XABCD combinations are more or less "self fulfilling" for a market reversal when they come together, as the people following this methodology will act without hesitation.**
- **When you can understand the implications of the "pure" EW sequences that work frequently it will guide your trading approach more than anything else will.**
- **Perfect EW set ups can and will OVER-RIDE most "lagging" indicators the better part of the time.**

Typical swing patterns:





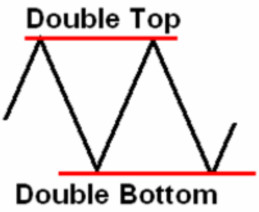
XABCD GEOMETRY will relate between the swings in market EXPANSIONS & CORRECTIONS and also in COMPLEX patterns.

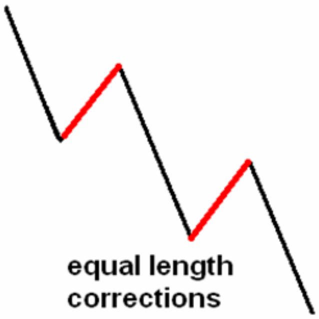
The IMPORTANT XABCD combinations in order are:-

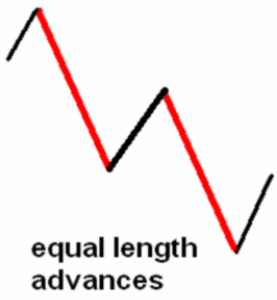
1. Direct Relationship of CD as a ratio of BC (BcD).
2. Alternate Relationship of CD as a ratio of AB (alt 1).
3. Direct Relationship #2 of CD to XA or XC (XcD) & (XaD).
4. Reverse Cross Relationship in EXPANSION of AD to BC (Rx).
5. Double Cross Relationship in COMPLEX swings of AD to XC (Dx).
6. Alternate Relationship of X to CD in a 5 wave impulse series (alt2).

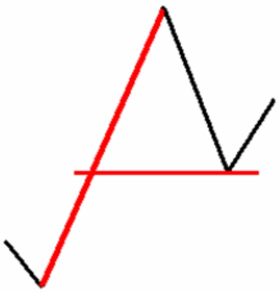
It is a very simple equation to follow……………………………

The following patterns are the common ones we will encounter. Other traders who are aware of the EW phenomena will recognize them easily and act upon them when the GEOMETRY is valid.

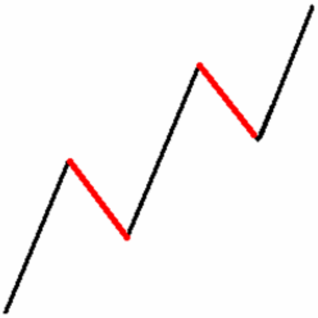




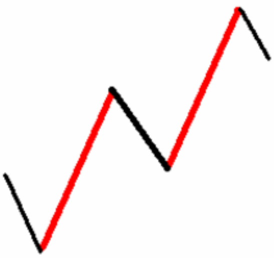




Retracement Level



1:1 Correction



1:1 Double Drive

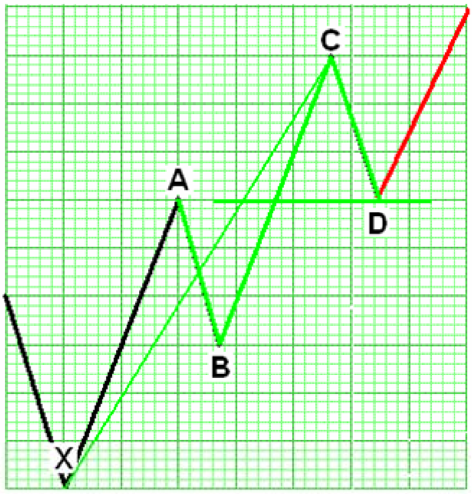
These patterns could signal a reversal or a continuation to the existing trend and they will be valid in all degrees of SWING ANALYSIS.

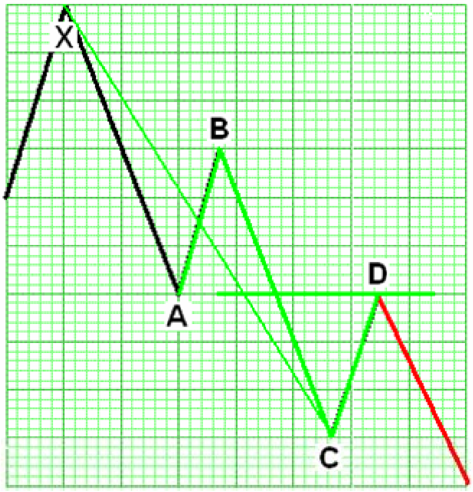
Small swings, medium degree swings, large swings, larger swings and major degree swings.

The PRIMARY Elliott Wave trading entries feature on these patterns.

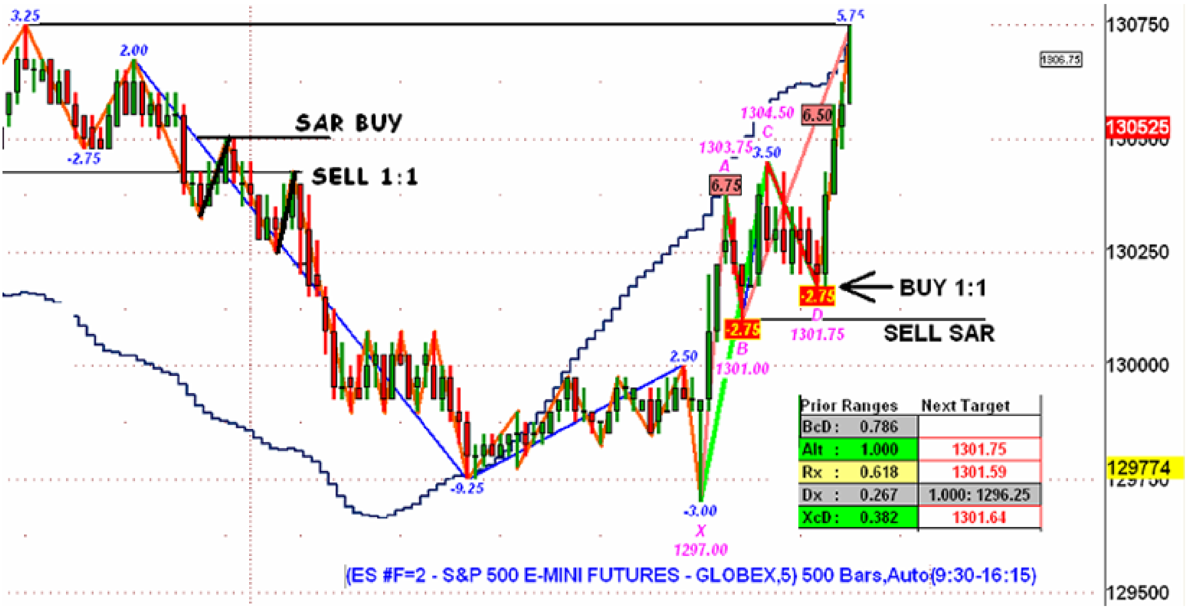
XABCD #1 = REVERSAL on 1:1 correction at D Entry:

BcD: 0.500	BcD: 0.618	Stronger	when
Alt : 1.000	Alt : 1.000		
		XcD: Ratio	
			D = A





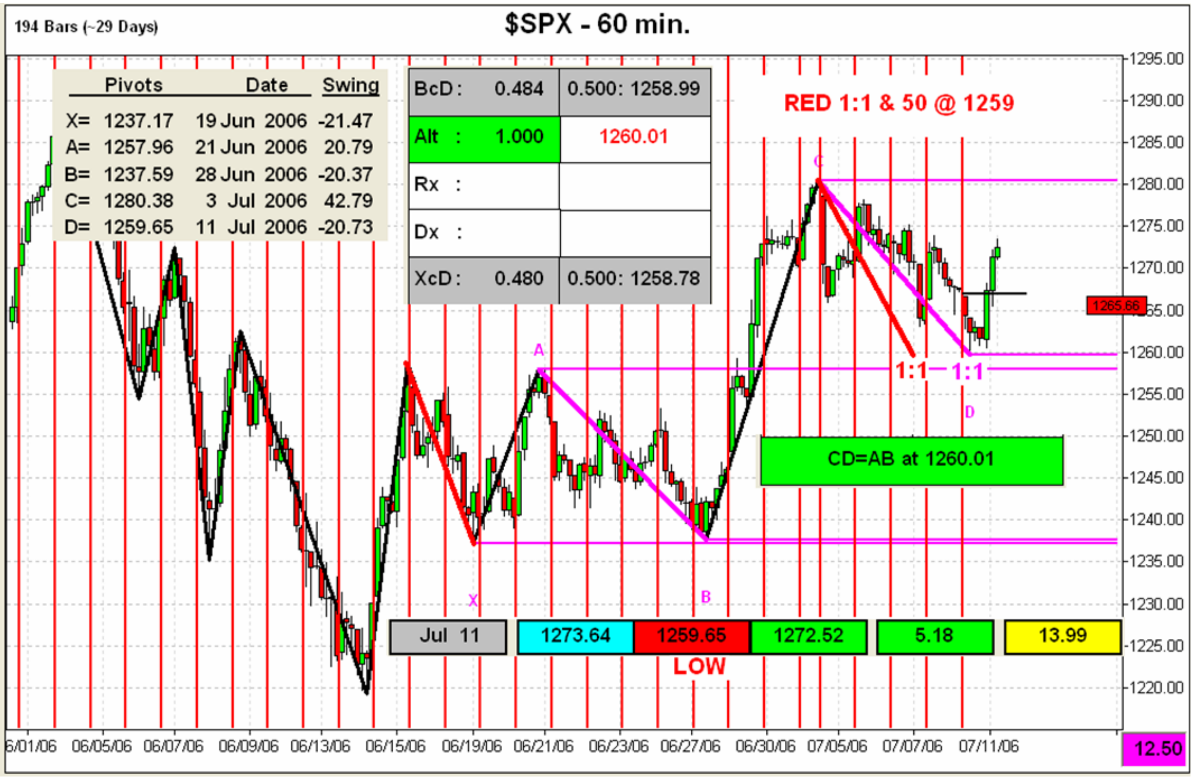
1:1 Running corrections in an upward or downward trending move.



These are common events every day in the ES market place as you will find out in time by following the price action each day.

Variations and combinations:

- **1:1 into 38.2, 50, 61.8 retrace levels**
- **1:1 into prior Pivot Point**
- **1:1 into Dual Retrace levels**
- **1:1 with smaller Double Drive 1:1**
- **1:1 with smaller triple drive 1:1's**
- **1:1 into Floor Traders Pivot Levels**



Pivots		Date	Swing
X=	1237.17	19 Jun 2006	-21.47
A=	1257.96	21 Jun 2006	20.79
B=	1237.59	28 Jun 2006	-20.37
C=	1280.38	3 Jul 2006	42.79
D=	1259.65	11 Jul 2006	-20.73

BcD :	0.484	0.500: 1258.99
Alt :	1.000	1260.01
Rx :		
Dx :		
XcD :	0.480	0.500: 1258.78

The same things happen in all swing degree and in all markets.

When they work they confirm the trend.

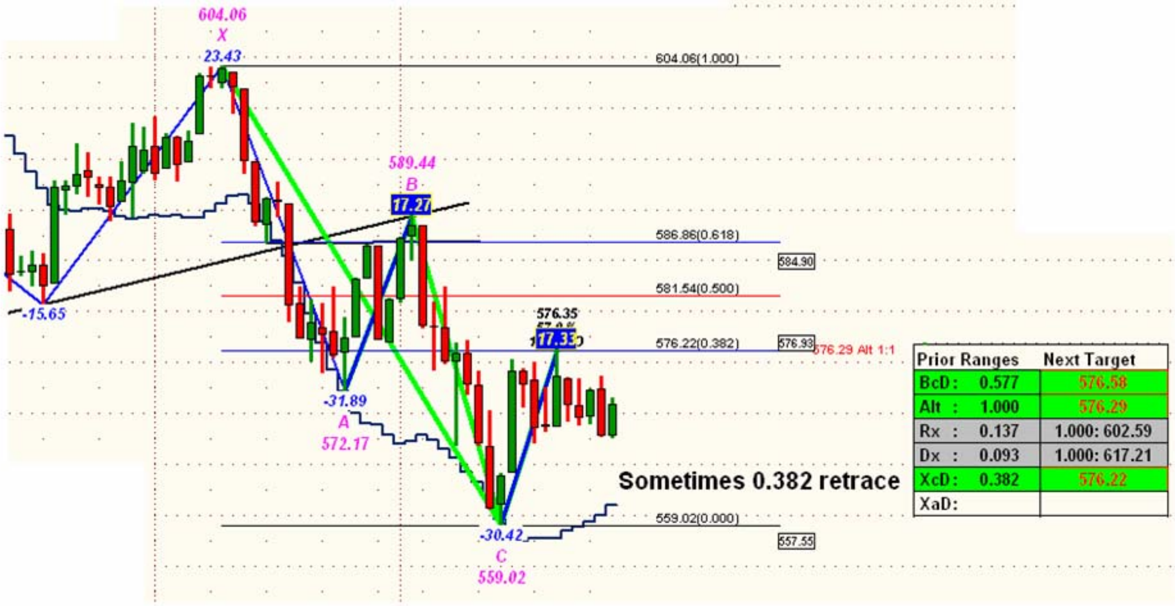
When they don't work they tell you the market has reversed direction and you might as well trade the new direction as that is the best way to go.

As the market unfolds you just monitor the larger degree swings for ongoing confirmation or a reversal in the larger degree.

Each step of the way in any trend can be confirmed using the 1:1 correction rule.

COMBINATIONS of 1:1's with BcD Retracements:

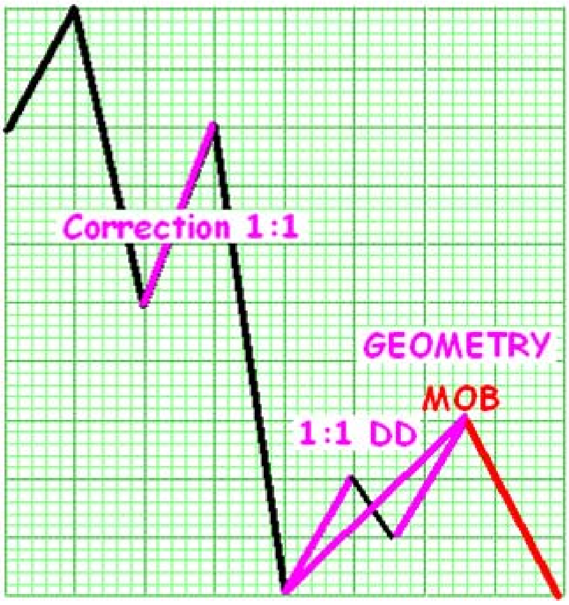
Depending on the development of the trend in progress, when you get into the large and larger degree swings the 38.2 is always a good bet with a 1:1.

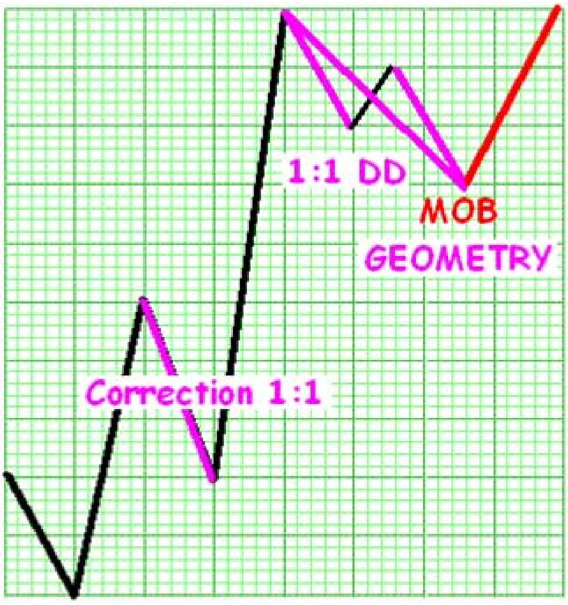


Sometimes 0.382 retrace

Prior Ranges		Next Target
BcD:	0.577	576.58
Alt :	1.000	576.29
Rx :	0.137	1.000: 602.59
Dx :	0.093	1.000: 617.21
XcD:	0.382	576.22
XaD:		

Double Drive 1:1 into a 1:1 Correction:

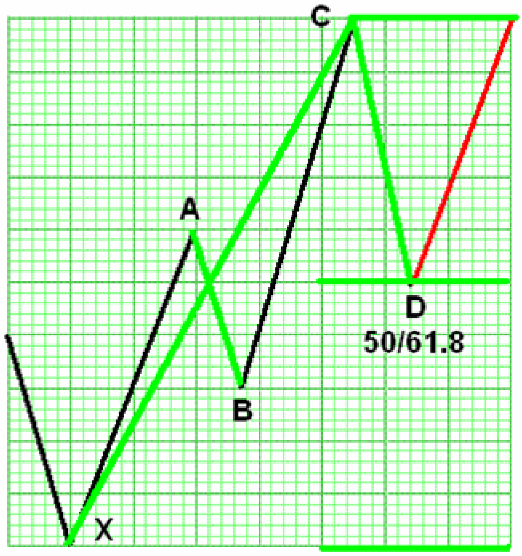

Correction 1:1
GEOMETRY
MOB
1:1 DD


1:1 DD
MOB
GEOMETRY
Correction 1:1

When a 1:1 does not reverse the market correction:

- **The 1:1 could extend to 1.272**
- **Then the 1:1.272 could fail and further extend to 1:1.618**

Nevertheless for a reversal on the 1.272 or the 1.618 of AB the retrace of XC at D has to fall on a precise level of 50% or 61.8%.


C
A
B
X
D
50/61.8

It might look something like this............................

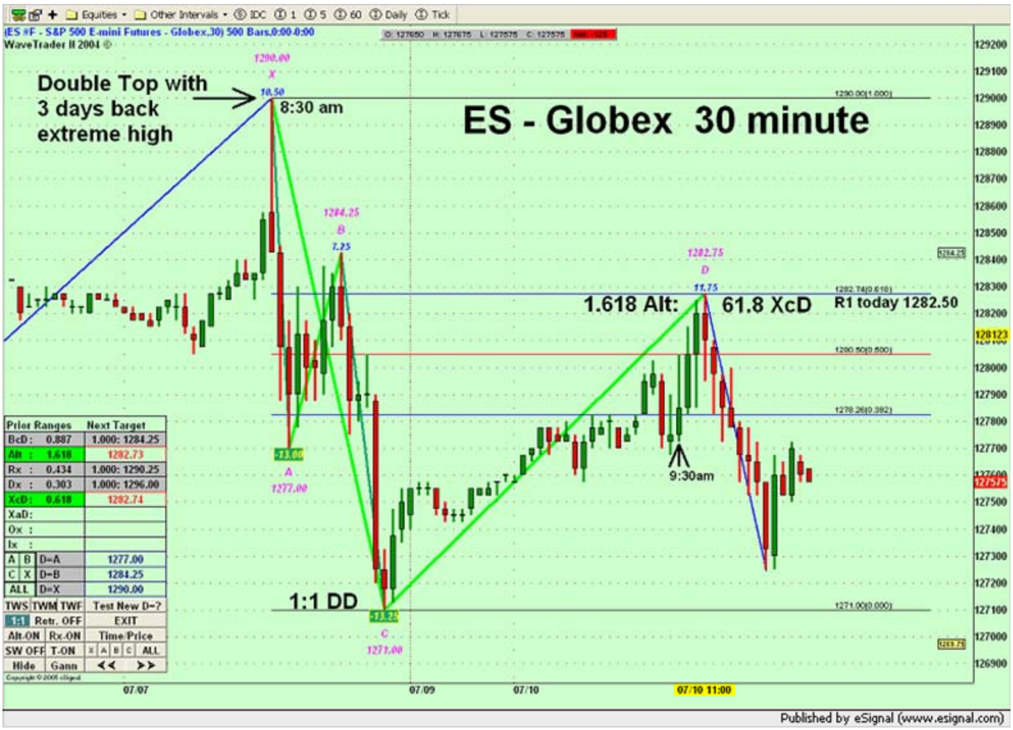
BcD: 0.707
Alt : 1.272
XcD: 0.500

BcD: 0.786
Alt : 1.618
XcD: 0.500

or this.......

Alt : 1.618
XcD: 0.618

Here’s an example:


Equities
Other Intervals
IDC
1
5
60
Daily
Tick
(ES #F - S&P 500 E-mini Futures - Globex,30) 500 Bars,0:00-0:00
O: 127650 H: 127675 L: 127575 C: 127575
WaveTrader II 2004 ©
Double Top with
3 days back
extreme high
1290.00
X
10.50
8:30 am
ES - Globex 30 minute
1284.25
B
7.25
1282.75
D
11.75
1.618 Alt:
61.8 XcD
R1 today 1282.50
1290.00(1.000)
1282.74(0.618)
1280.50(0.500)
1278.26(0.382)
1271.00(0.000)
9:30am
13.00
A
1277.00
1:1 DD
13.25
C
1271.00
129200
129100
129000
128900
128800
128700
128600
128500
128400
128300
128200
128123
128000
127900
127800
127700
127575
127500
127400
127300
127200
127100
127000
126900
07/07
07/09
07/10
07/10 11:00
Published by eSignal (www.esignal.com)

Prior Ranges		Next Target
BcD:	0.887	1.000: 1284.25
Alt :	1.618	1282.73
Rx :	0.434	1.000: 1290.25
Dx :	0.303	1.000: 1296.00
XcD:	0.618	1282.74
XaD:		
Ox :		
Ix :		
A B	D=A	1277.00
C X	D=B	1284.25
ALL	D=X	1290.00

TWS
TWM
TWF
Test New D=?
1:1
Retr. OFF
EXIT
Alt.ON
Rx.ON
Time/Price
SW OFF
T-ON
X
A
B
C
ALL
Hide
Gann
<<
>>
Copyright © 2005 eSignal

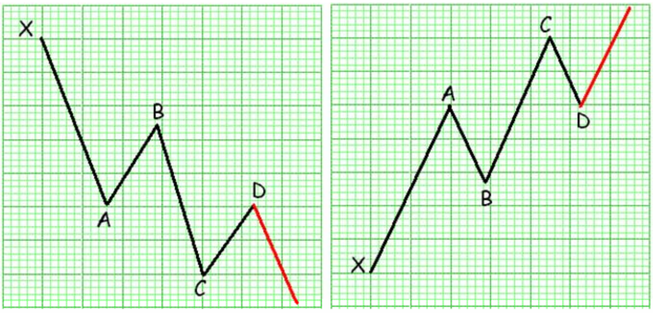
CONTINUATION PATTERNS:

There are times the 1:1 will never materialize as a 50 (Alt 1), 61.8 (Alt 1) or a 78.6 (Alt 1) provides support and the market continues in the prior direction:

This is never a good place to try and buy or sell at on the extreme point unless there is other important GEOMETRY associated with it, but at least after you have seen the price action you can plan other strategies around it.

A 50 (Alt 1) or 61.8 (Alt 1) correction implies strength. It will when the market breaks out to new highs or lows give you the green light to buy or sell the break as a 61.8 (Alt 1) reversal is very strong medicine to the on going trend. Nevertheless it will imply a 5th wave.

Each important sign you get from the market gives you some future opportunity even if you have to wait for a while.



CONTINUATION X-ABCD FORMATION

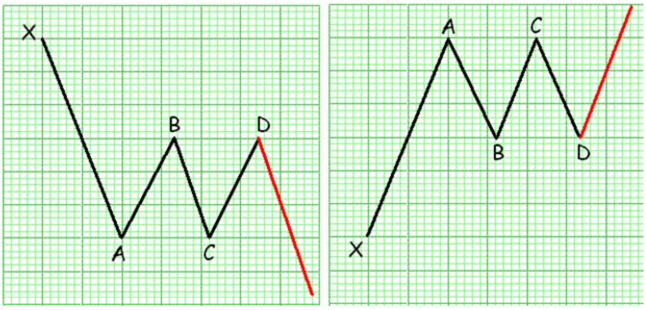
The geometric possibilities in order of priority are: -

1. CD-BC (BcD)
2. CD-AB (Alt 1) 1.000:1:000 Maximum
3. CD-XC (XcD)
4. D=A

In the smaller waves the TWS is a good guide to the strength in trend. Yet in the larger waves the market will most likely be in an overbought or oversold condition at the "D" reversal level.

The more times you see this pattern repeat the more confidence you will gain with it. It all comes down to developing your own belief system to make the right entries.

More continuation patterns:



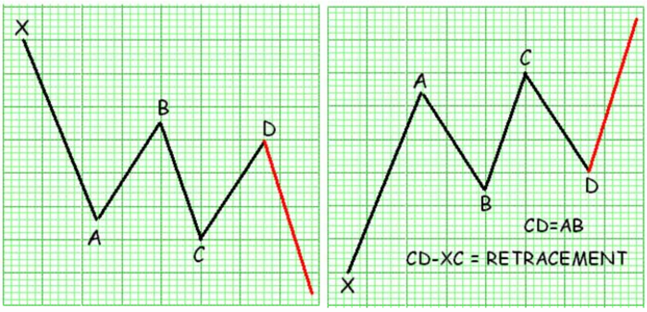
RECTANGLE X-ABCD FORMATION

This is a typical RECTANGLE PATTERN

The geometric possibilities in order of priority are: -

1. **AD-XA (XaD)–0.382, 0.500, 0.618 retracement in which it is a repeat of AB-XA**
2. **CD-XC (XcD) – same as above.**
3. **CD-BC = 1:000 to 1:000**
4. **CD-AB = 1:000 to 1:000**
5. **AD-BC = 1:000 to 1:000**

Then there is the RUNNING RECTANGLE



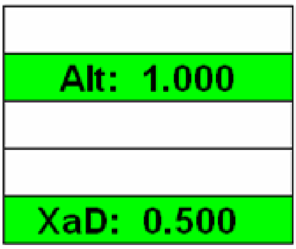
RUNNING CORRECTION X-ABCD FORMATION

The geometry will be : -

1. **CD-AB (Alt) = 1.000 to 1.000**
2. **CD-XC (XcD) = Retracement of 0.382, 0.500 or 0.618**

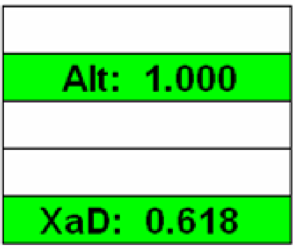
XABCD #2 = REVERSAL on 1:1 Double Drive at D Entry:

This set up requires the market to be terminating the 1:1 DD at a 50, 61.8 or Double Top or Double Bottom to form the correct GEOMETRY required for a straight out naked reversal trade attempt.



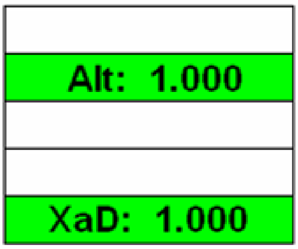
Alt: 1.000

XaD: 0.500



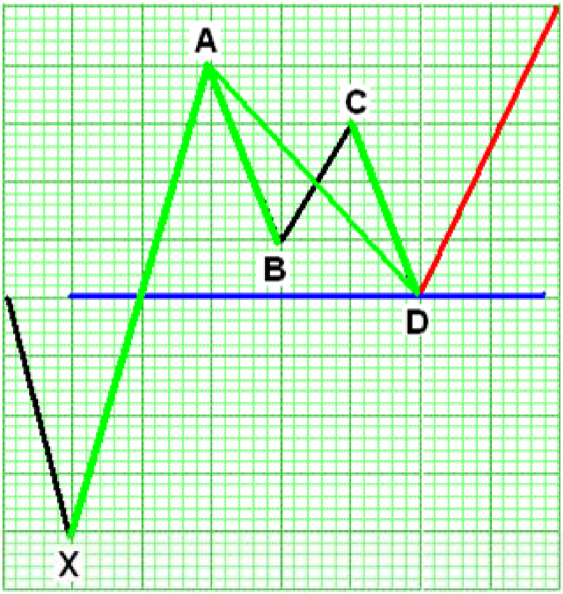
Alt: 1.000

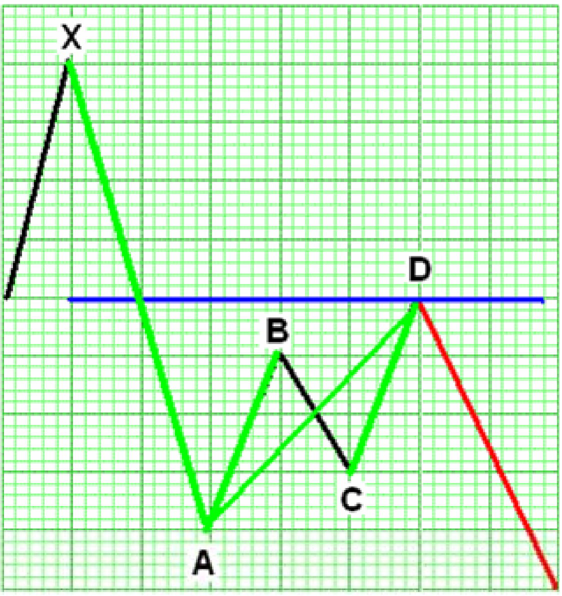
XaD: 0.618



Alt: 1.000

XaD: 1.000





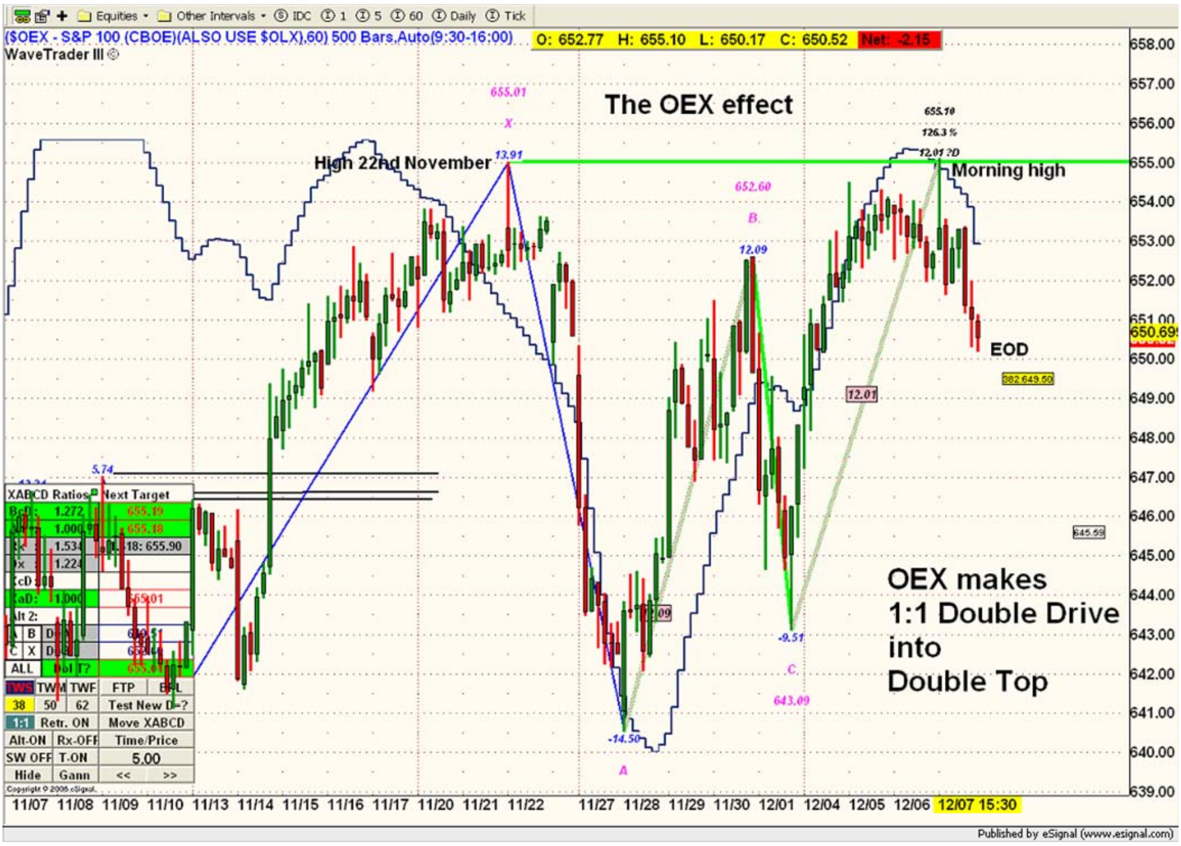
1:1 Double Drives are an ELLIOTT WAVE thing that traders recognize as high probability reversal levels.

The point really is that if you knew what I know and you had studied the market as closely as I have you will understand the significance of these things.

All you need to do is track them from your charts in small, medium and large degree swings that are unfolding and you can see if they are going to occur well before they come into play.

When they actually hit there are a few other things you need to consider at the time, but if the signs are there you can get in on the top floor and then watch the fireworks.

1:1 Double Drive into a double top:



XABCD relationships become stronger when BcD and/or Rx are highlighted at the same time.

BcD: Ratio
Alt: 1.000
Rx : Ratio
XaD: 0.500

BcD: Ratio
Alt: 1.000
Rx : Ratio
XaD: 0.618

BcD: Ratio
Alt: 1.000
Rx : Ratio
XaD: 1.000

BcD could be 1.272, 1.414, 1.618, 1.732, 2.000 or 2.618
RX could be 1.272, 1.414, 1.618, 2.000, 2.618 or 3.000

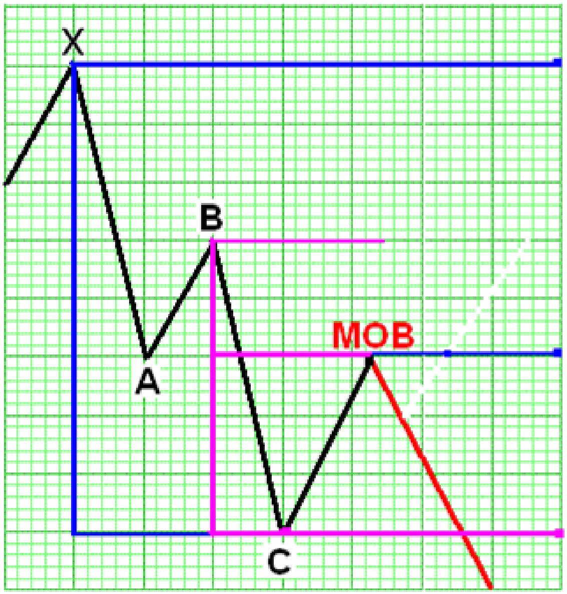
1:1 Double Drives into 50%, 61.8% retrace levels and Double Tops / Double Bottoms can be great opportunities when they occur in medium degree swing patterns and larger.

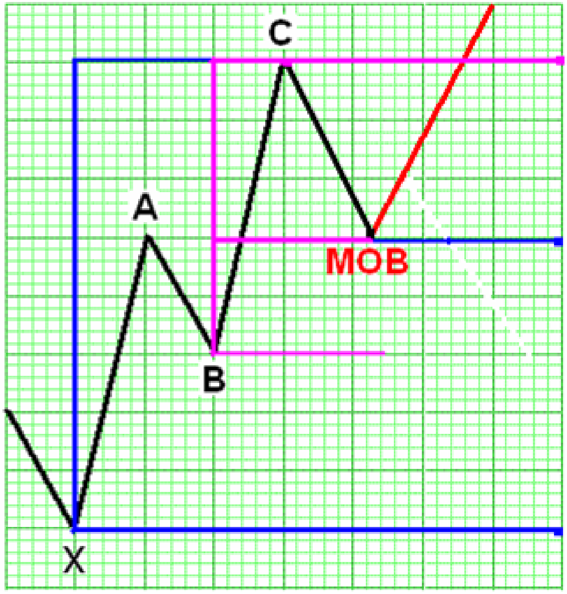
XABCD #3 = DUAL RETRACE LEVELS – MOB (Make or break):

BcD: 0.500
XcD: 0.382

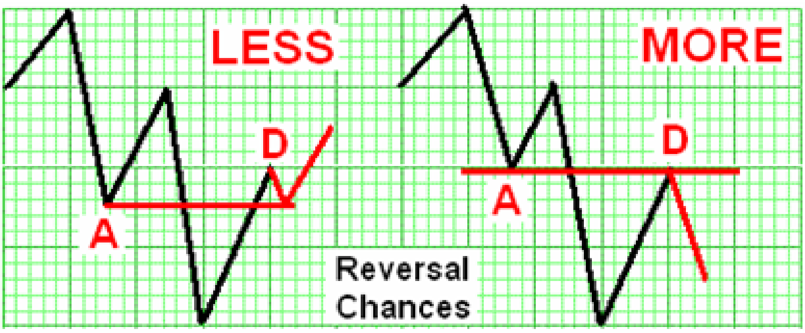
BcD: 0.618
XcD: 0.382

BcD: 0.618
XcD: 0.500



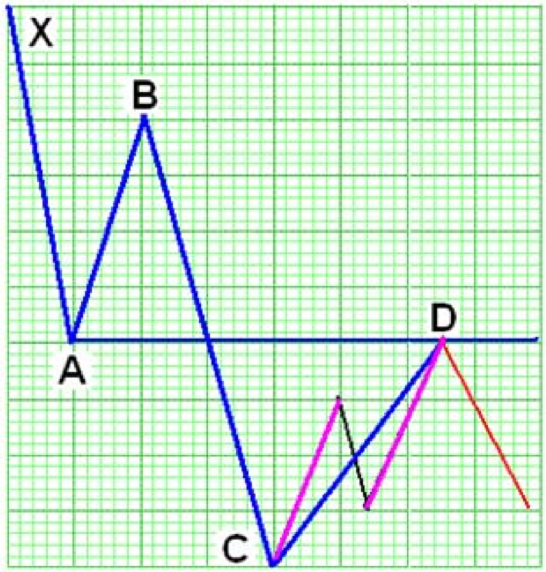


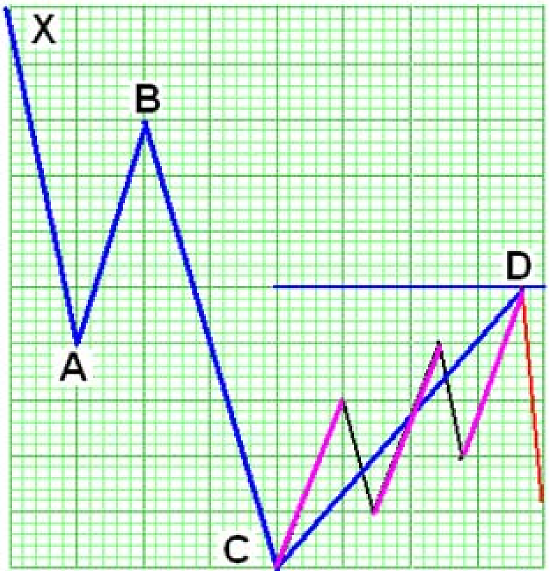
There are some caveats that you need to consider on MOB Dual Retrace Levels.



- **1st: Where is the market position in relationship to the last 1:1 of larger degree. Is CD still less than 1.000**
- **2nd: Where is the market position in terms of the last reverse pivot point. I.e., where is D in relation to A.**

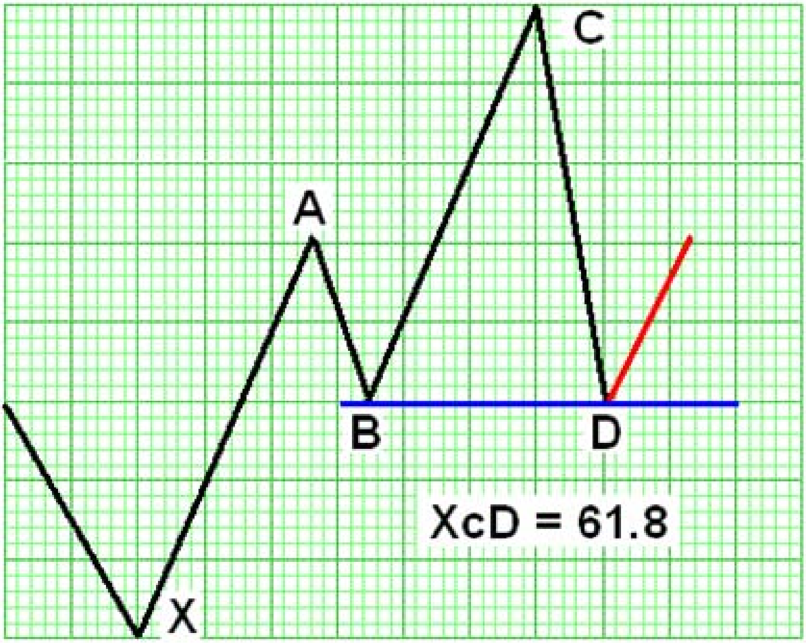
Dual Retrace Levels and smaller swing configurations with DD(double drive) 1:1 or TD(triple drive) 1:1 are near certain reversal levels.



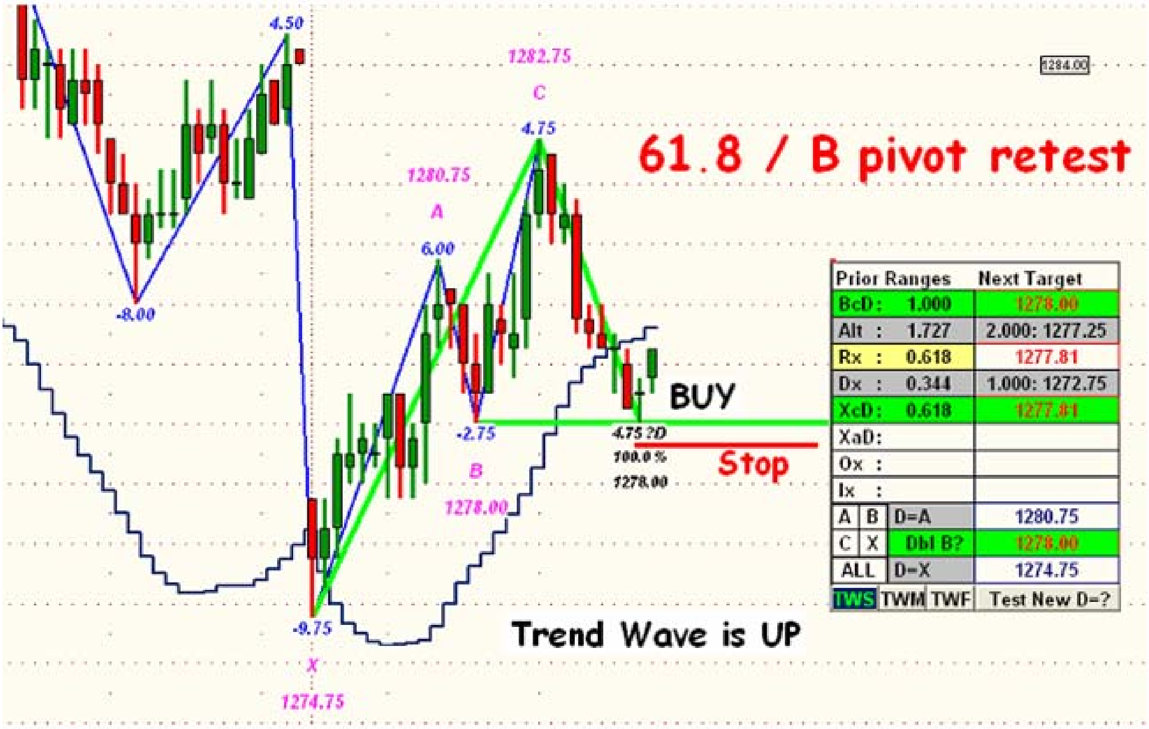


Larger degree corrections that take on a purely technical look such as Double and Triple Drive 1:1's into higher degree retrace levels are bound to attract speculator attention when these events coincide with DUAL RETRACEMENT levels.

XABCD #4 = 61.8 (XcD) on a prior swing pivot:



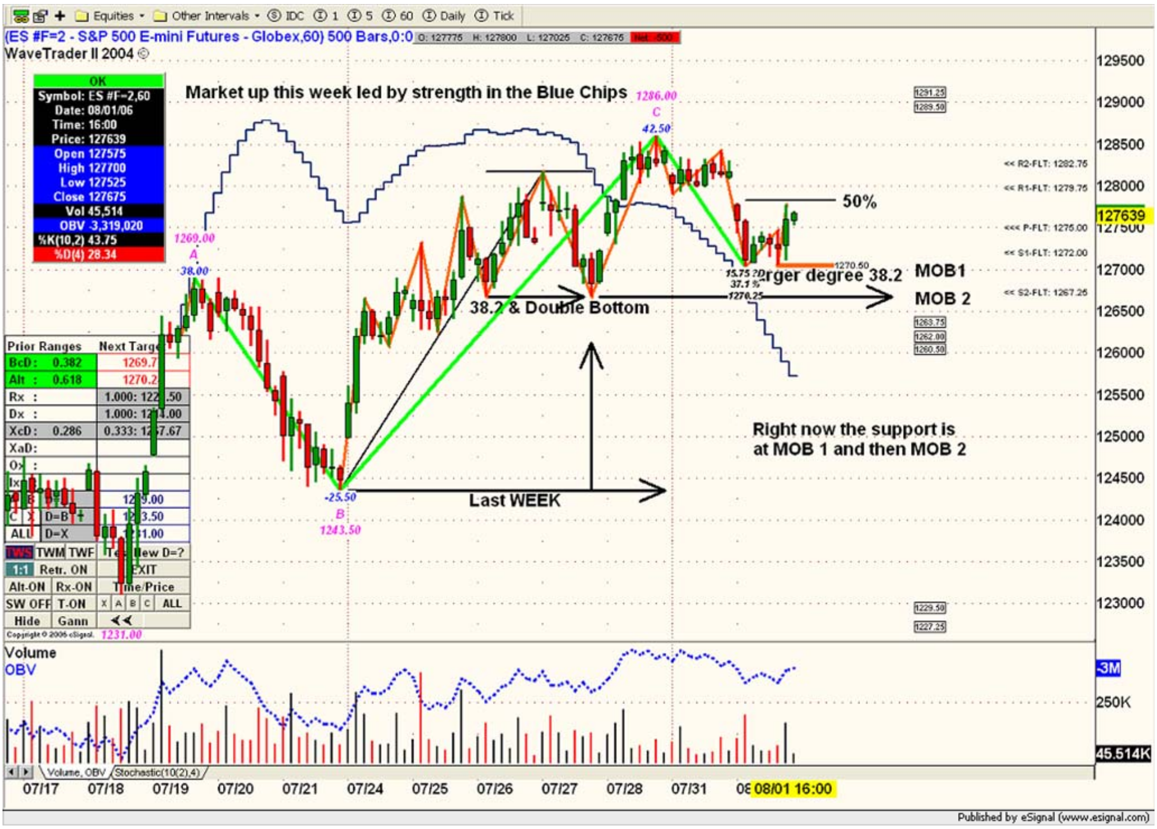
The mirror image applies to a downward trend. These patterns can form in all swing degrees. They are particularly useful as an entry point in the early stages of a new swing series using the smaller degree swings.



Prior Ranges		Next Target
BcD :	1.000	1278.00
Alt :	1.727	2.000: 1277.25
Rx :	0.618	1277.81
Dx :	0.344	1.000: 1272.75
XcD :	0.618	1277.81
XaD :		
Ox :		
Ix :		
A B	D=A	1280.75
C X	Dbl B?	1278.00
ALL	D=X	1274.75
TWS TWM TWF		Test New D=?

XABCD on 38.2 levels:

- **Under Elliott Wave guidance when an advance has been in progress for more than several days it is normal to only expect corrections of no more than 38.2 of the advances if the present trend is to remain intact.**
- **A 38.2 on a lesser degree PIVOT would satisfy.**
- **A 38.2 on an XABCD structure of significance would also satisfy.**

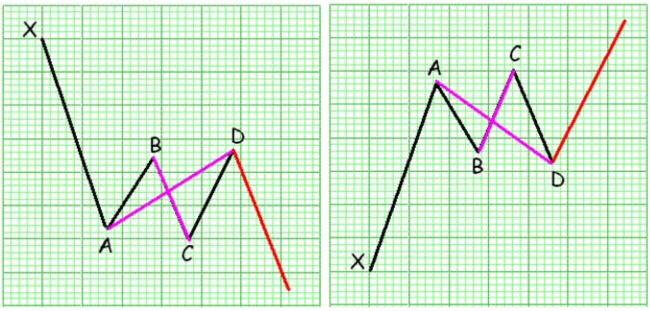


These patterns will likely form when the 1:1's are out of play. This pattern above formed in the ES in the early stages of a 5 month rally which has been led by buying in the OEX.

MORE XABCD Patterns:

Continuation Patterns:

FALSE BREAKOUT Continuation Pattern:

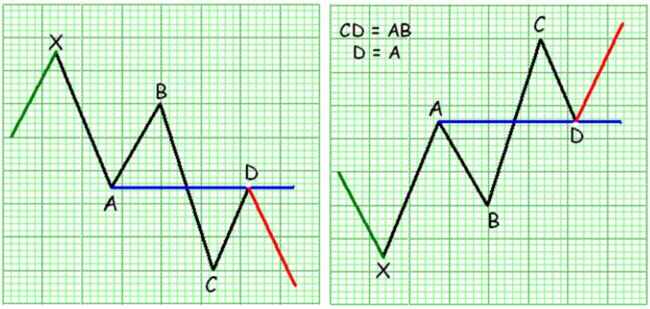


FALSE BREAKOUT X-ABCD FORMATION

The geometric possibilities in order of priority are: -

1. AD-BC (Rx) = 1.000 to 1.000
2. CD-XC (XcD) = Retracement Ratio
3. CD-AB (Alt) could be 1.272

D=A RETURN Continuation Pattern:

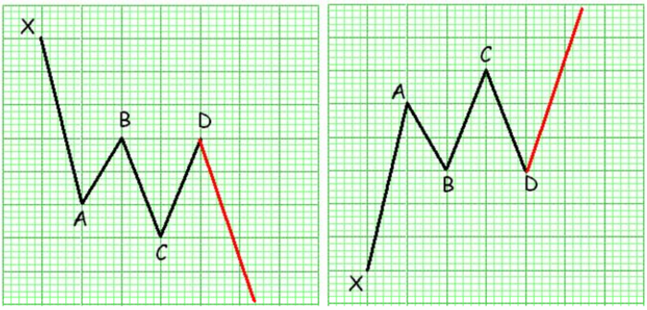


D-A RETURN 1:1 X-ABCD FORMATION

The geometry will be : -

1. D = A (Prior Support)
2. CD-AB = 1.000 to 1.000
3. CD-BC (BcD) most likely will be a 50% RETRACEMENT

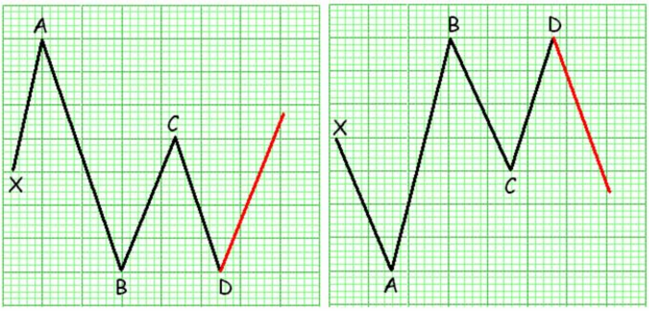
D=B DOUBLE TOP or BOTTOM Continuation:



D-B Double Return - Reversal Formation

This one is always a good chance and if the CD retracement of XC is a good fit on a ratio of 0.382, 0.500 or 0.618 it is almost a certainty.

Reversal Patterns:



Double Bottom & Double Top Formations

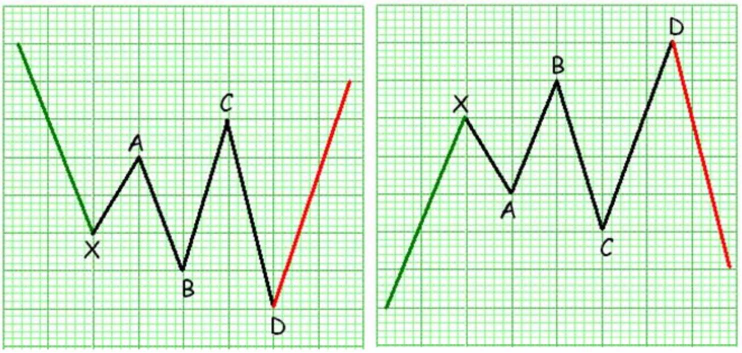
The first thing I look for before considering a Double Top or Double Bottom reversal is an overlapping C pivot of the X pivot. This prior activity at least promotes a sense of instability.

The geometry that you may experience is: -

1. Naturally CD = BC
2. AD-XA (XaD) is on a ratio perhaps like 1:1.618 or 1:2.000
3. AD-BC (Rx) is on a ratio

There is not much else you can look for except that B was already a level of importance relative to some former X-ABCD geometry.

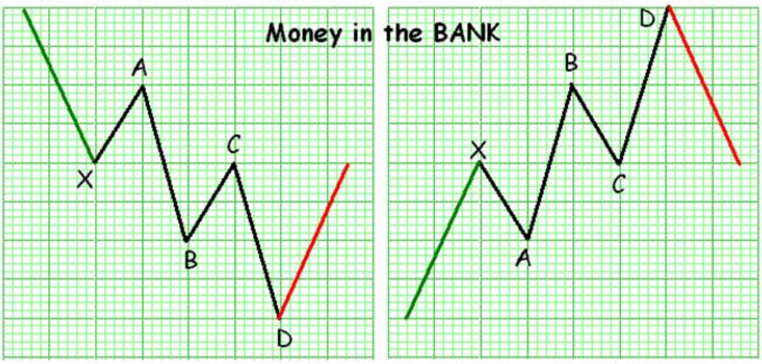
Reversal Patterns: continued….



EXPANDING TOPS & BOTTOMS

Expanding tops and bottoms fall into the category of 3 drives to a top or a bottom and are a technically respected pattern for a larger degree change in trend.

The thinking behind the 3 drives pattern is that the power of the trend in progress is breaking down and most trading system stops will be moving in.



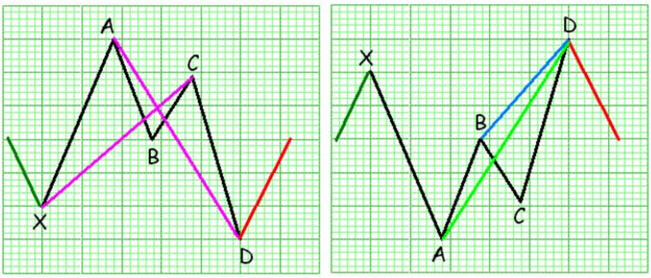
ABCD= 1.00 - (0.382, 0.500. 0.618) - 1.00 REVERSAL

Some of the best reversals intra-day occur when CD=AB and CD-BC is a 1.618, 2.000 or a 2.618. The (Rx) will light up.

If the BC-AB is not on 0.382, 0.500 or 0.618 then the Rx should be on a strong ratio such as 1.272, 1.414, 1.732, 1.902, 2.000, 2.236 etc.

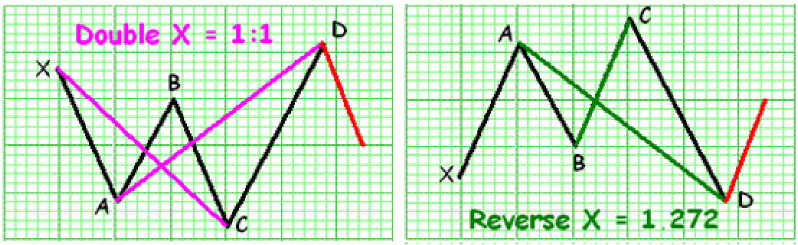
Once you experience a few of these you will know how to recognise them as they are about to occur. In any case once the price crosses back over the B pivot the move should be confirmed.

COMPLEX X-ABCD PATTERNS:


A
C
B
X
D
X
D
B
C
A

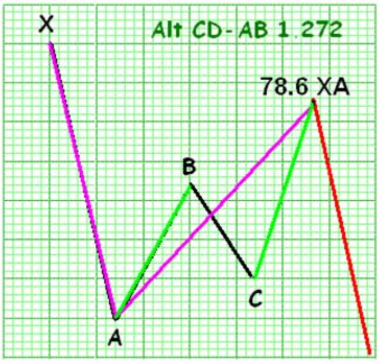
COMPLEX XABCD where D exceeds X

Sometimes referred to as a Butterfly pattern in technical circles. If there is enough binding geometry in the structure D will become a reversal point.

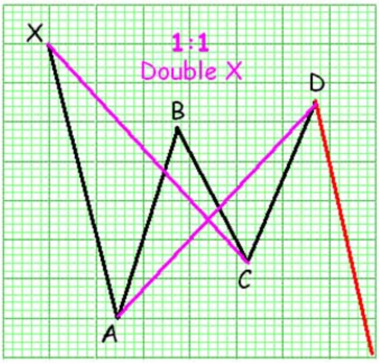

Double X = 1:1
D
X
B
A
C
C
A
B
X
D
Reverse X = 1.272

Complex Formation with 1:1 Double Cross

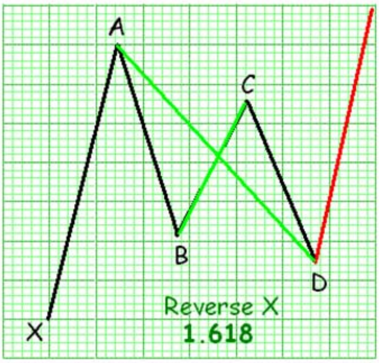
This type of reversal at D will most likely occur when CD is a strong thrust on the day in what seems to be a directionless market. For instance AB-XA is greater than 0.618, BC-XA is slightly less than 1:1 or 1:1.


X
Alt CD-AB 1.272
78.6 XA
B
C
A

Gartley 78.6 retrace


X
1:1
Double X
D
B
C
A

COMPLEX X-ABCD


A
C
B
D
Reverse X
1.618
X

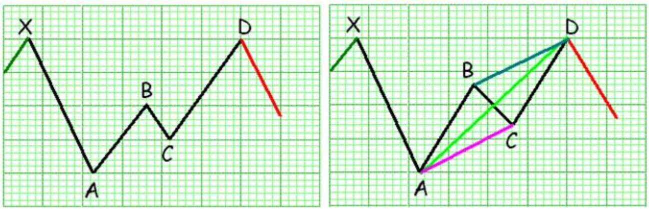
a few possibilities

Some technicians may refer to this pattern as a Gartley pattern if the AD-XA came in as a 0.786 retracement.

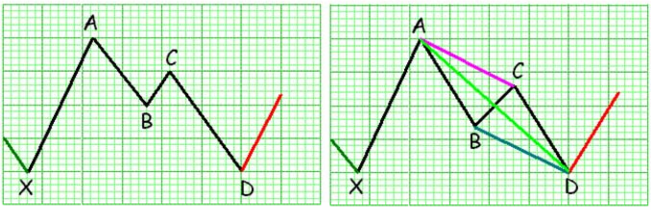
1. AD-XA (XaD) = 0.786

The combinations that go with it are numerous but these are possibilities.

DOUBLE TOPS & DOUBLE BOTTOMS:



D-X DOUBLE Top



D-X DOUBLE Bottom

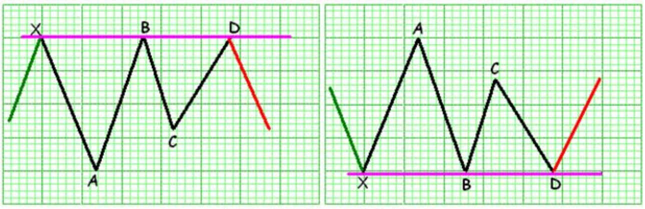
A double top or a double bottom under most circumstances will encounter resistance or support for the simple reason it is viewed as a natural resistance or support zone.

About 50% of the time a double bottom will break. The market will only make a temporary hesitation before it breaks through.

Yet when certain geometry is present in the ABCD swings the resistance or the support will be guaranteed almost 80% of the time.

When CD=AB (Alt) 1.000:1.000 the reversal is almost guaranteed.
Also
When AD-BC (Rx) equals 1.618, 2.00, 2.618 or 3.000

Other factors to consider are retracement levels of larger degree X-ABCD’s.

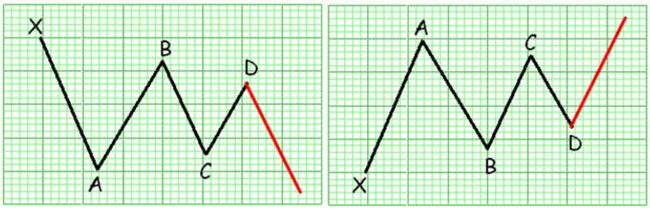


Tripple Top or Bottom

This is a rare pattern in larger degree waves but is very common in intra-day smaller consolidations or distributions. What you have to consider is what went before to assess if it means anything important in the bigger picture.

Finally:
When you inspect the geometry in any of the X-ABCD structures I have outlined so far remember that instances where the geometry falls in multiples of, 0.500, 0.618, 1.000, 1.618 and 2.000 will attract much more attention from the other technicians.

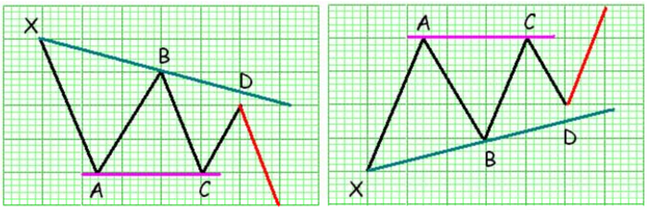
TRIANGLES in CONSOLIDATIONS:



Contracting Triangles X-ABCD Patterns

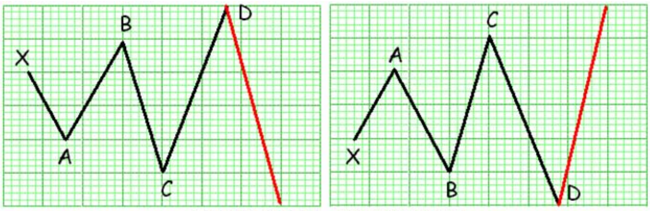
These formations are not likely to come out on perfect ratios but the implication is implied by the pattern.

There will be situations where you can identify an internal geometry.



DESCENDING - TRIANGLE - ASCENDING

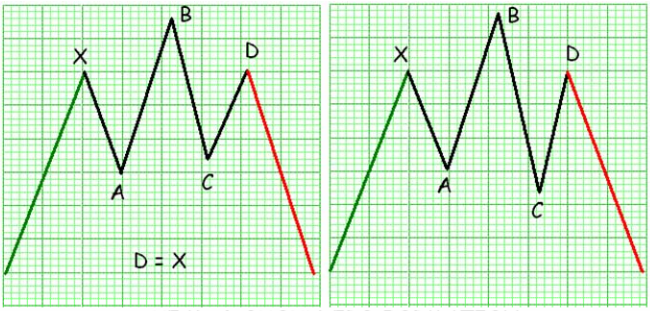
The same goes for the Descending and Ascending triangle formation but if swing AB-XA = 0.618 and swing CD-AB = 0.618
Or Combinations similar = 0.786, 0.707 or 0.500 the formation will be valid.



EXPANDING TRIANGLES

Each leg or Alternate legs could expand on ratios of 1.272, 1.414 or 1.618 or an Rx of 1.000

HEAD & SHOULDERS FORMATION:

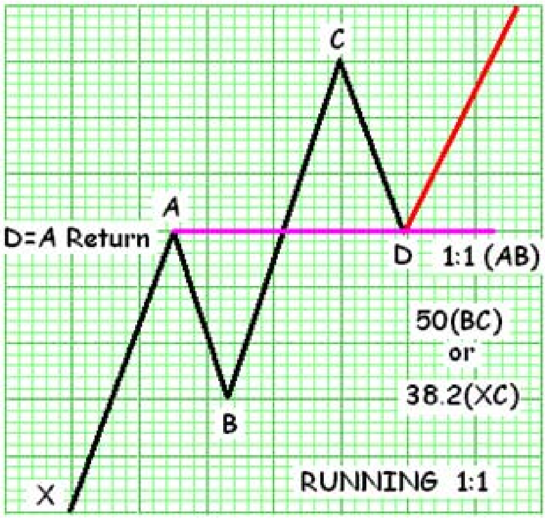


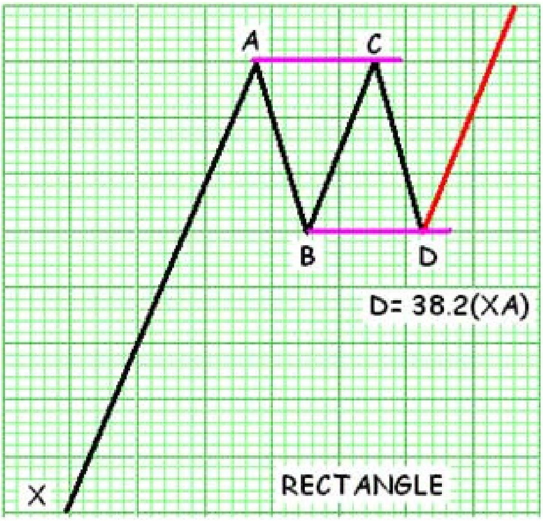
HEAD & SHOULDERS FORMATION

This pattern is more of a longer-term analysis pattern yet it could occur on a 60 minute chart if the market is making new weekly highs and showing signs of instability. I'm not sure how you would evaluate it completely but the key to a reversal is if D=X and the market fails to advance higher. A continuation of the leg down from D will be more certain once the pivot level of C is broken.

Two Important Set Ups to remember:

These SET UPS offer a two way opportunity to make money – the market should reverse UP for a BUY but in case it does not it confirms a SELL.





X-ABCD SUMMARY:

In this section I have shown you almost all of the patterns that educated technicians would recognise as significant.

If you can identify legitimate geometry between the X-ABCD legs when these patterns form it will give you the edge over the majority of the market players.

Some patterns are more reliable than others and out of each pattern there are several possibilities for the unfolding patterns.

Geometry in the X-ABCD is the only way you are going to identify the exact price where a market will reverse trend either as a major reversal or just as a corrective move.

When you utilise the X-ABCD approach collectively with the other methodologies I teach in this PRICE ACTION course you should have no trouble staying on the right side of the market activity.

But remember this, if you think a reversal is happening because of a pattern and certain geometry and the market does not reverse direction or it reverses for a short time and then breaks through your D level it is telling you to reverse the other way and go with the flow at the time.

If you do this you can be a winner, if not then you only have yourself to blame.

LEARN TO OBSERVE THE MARKET ON A DAY-TO-DAY BASIS:

If you analyse the unfolding patterns each day you will find that set-ups become very obvious to the trained eye.

When a market trend is vulnerable to a reversal and the X-ABCD ratios line up in an Elliott Wave pattern then that is where it will happen, all you have to do is be there to recognise it.

I have the WaveTrader III and the WT-ES Assistant software to alert me to the ratios as they come together, this is an enormous help.

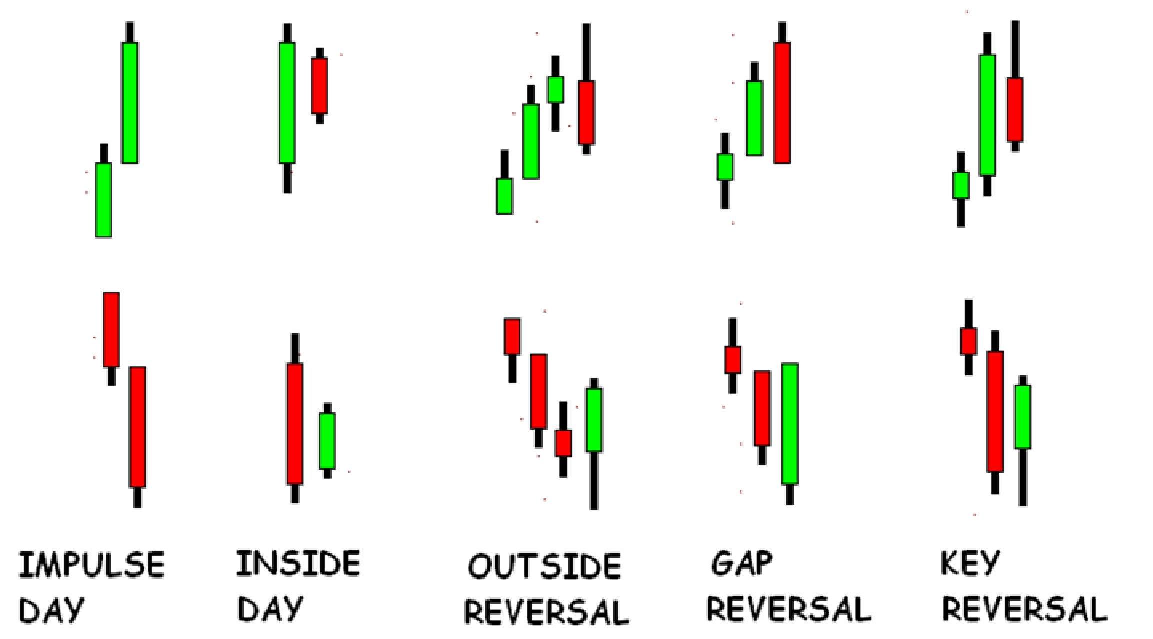
There will be other combinations of ratios between XABCD swings that come up out of the “blue” that you will need to consider, nevertheless if they are there they may explain why the market reversed and when you see the pattern confirm it will give you more confidence to trade the pattern.

Chapter 20

Patterns and Candlesticks:

Market swings form patterns that have certain implications to traders. Also each day the past 2 to 3 days form candlestick patterns that often have implications for the next trading day.

THESE ARE THE BASIC DAILY TRADING PATTERNS.



The two most important daily patterns to recognize are the **OUTSIDE REVERSAL DAY** and the **GAP OUTSIDE REVERSAL DAY. Mostly after one of these type days the market will continue in the same direction as it closed.**

INSIDE DAYS are indecision days and generally infer you are stuck in a range.

IMPULSE DAYS are strong directional days where the market basically opens on its low or high for the day and moves either up or down for the entire day.

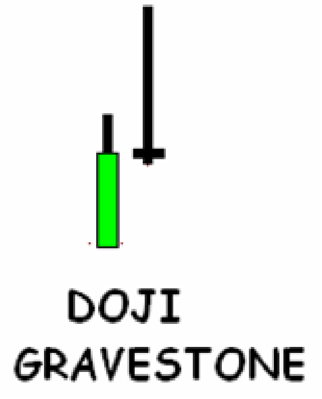
Then we have some Japanese Candlestick patterns that are always important in the larger scheme of things.

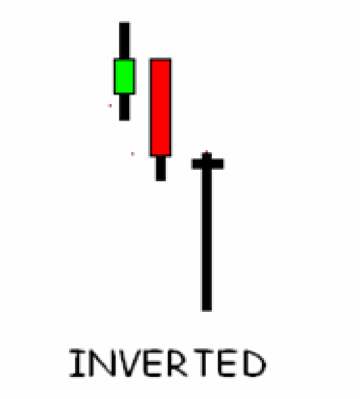
DOJI DAYS:

DOJI days are where the market open and close price is so close it is basically the same. It depends on where the open and close is relative to the range to name them.

If the open and close are in the middle of the range the implication is indecisive, but if they are at the lower or higher end of the range they are more important.

DOJI – Gravestone and Hanging Man:





The Gravestone implies the next day will be down and the Hanging Man implies it will be up.

Each day before the market opens it will pay you to look at the daily chart and see if you have one of these patterns present and then you can start the day on the right footing.

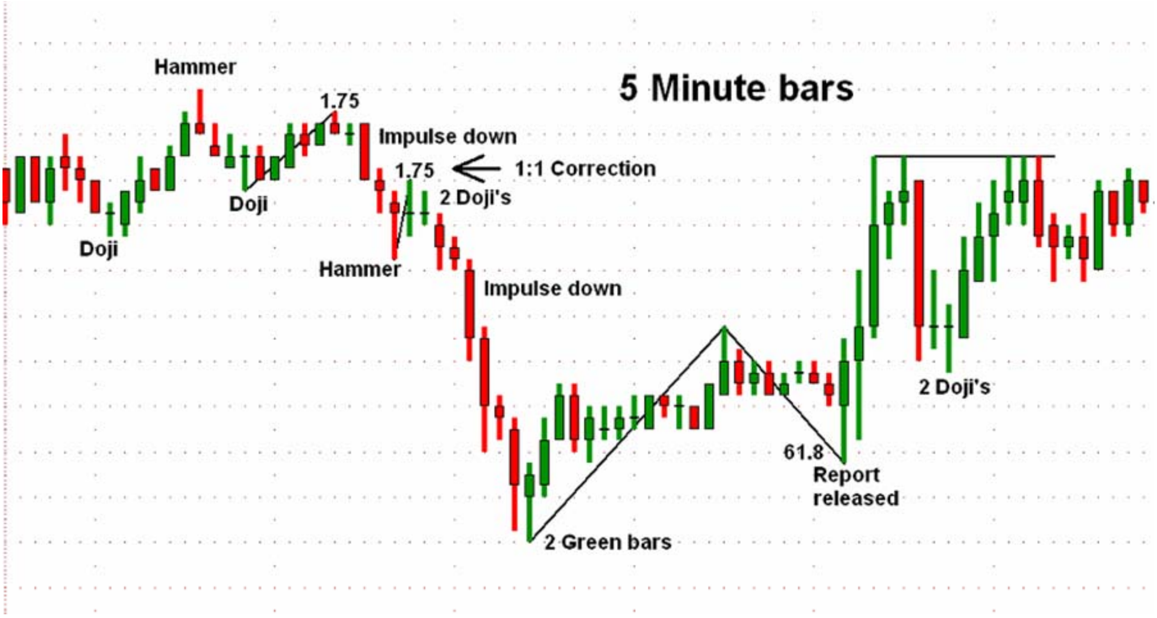
Once the market opens if it trades in your preferred direction you will at least know why.

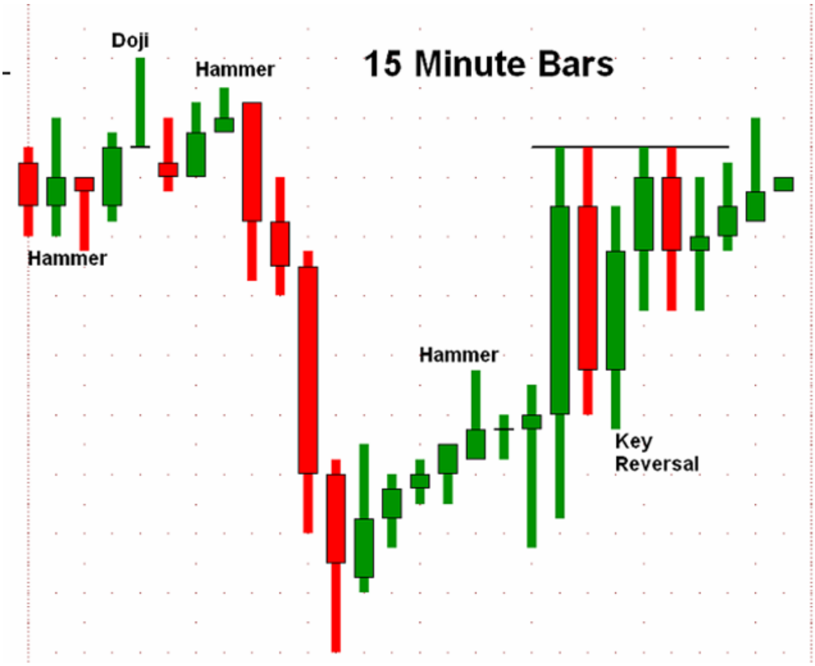
Nothing is exactly perfect but you need to observe all these things if you want to stay on the right track.

Intraday these patterns are regularly seen at smaller swing reversal tops and bottoms. In fact all the patterns I am showing you can be seen in the intraday price action.

During the day if you watch the candlestick patterns closely they will help you read the trader activity a lot better; as each 5 minute, 15 minute and 60 minute bar unfolds it is telling you a story of the fight going on between the buyers and the sellers.

Observe the unfolding bars as part of your approach:

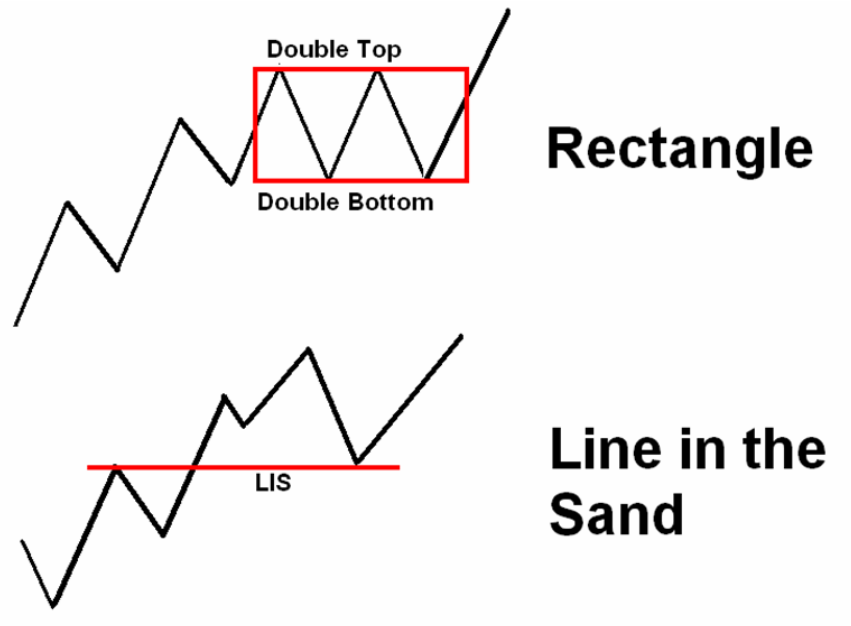




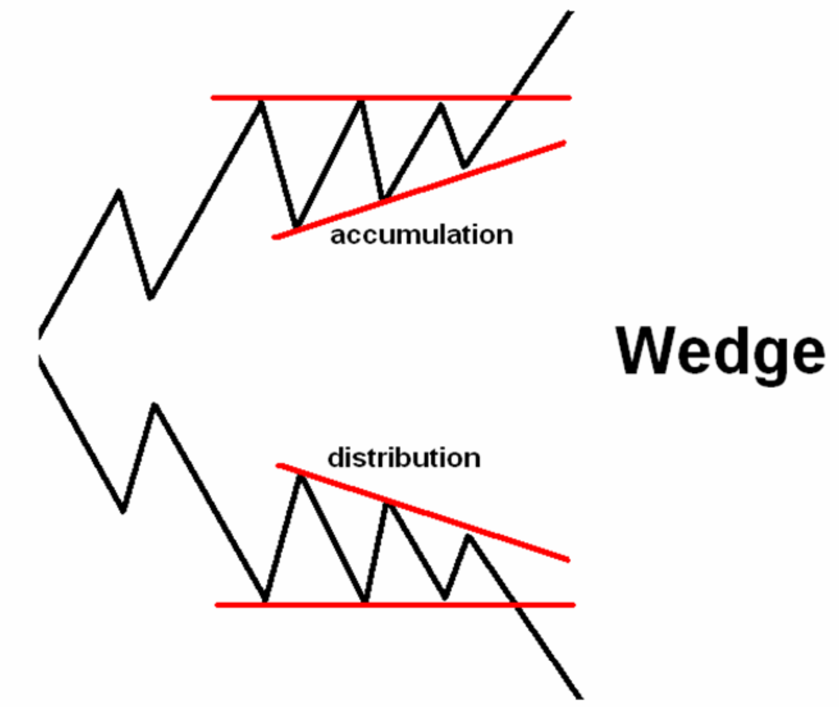
Rather than producing a study on Japanese Candlesticks here I would recommend a book which makes an extensive study of the art.

JAPANESE CANDLESTICK CHARTING TECHNIQUES written by Steve Nison. [C] 1991, Publisher Simon & Schuster.

PATTERNS with IMPLICATIONS:

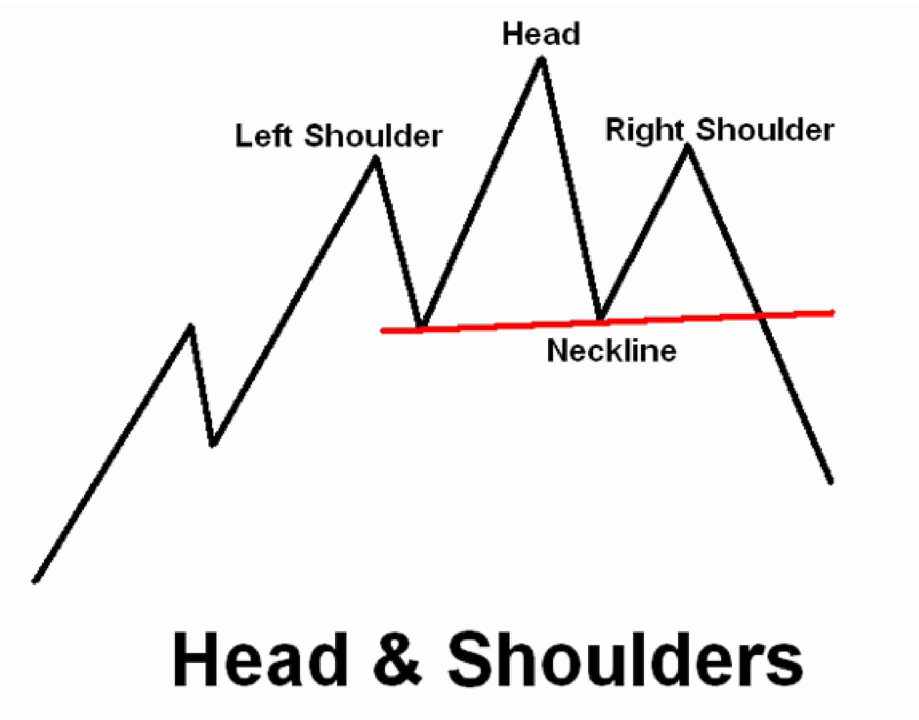

Double Top
Double Bottom
Rectangle
LIS
Line in the Sand

The implication of these patterns is that a breakout to new highs will succeed.


accumulation
Wedge
distribution

Triple tops and triple bottoms will normally break out on the 4th attempt.

HEAD & SHOULDERS PATTERN:



The Head and shoulders pattern is something that when it occurs in a daily chart, will have every chartist calling a market top.

When it occurs on a 60 minute chart it will attract selling if the neckline breaks.

The thing is you must be aware of the market mood when you see these patterns as the market in the smaller degree swings maybe only consolidating and go onto new highs.

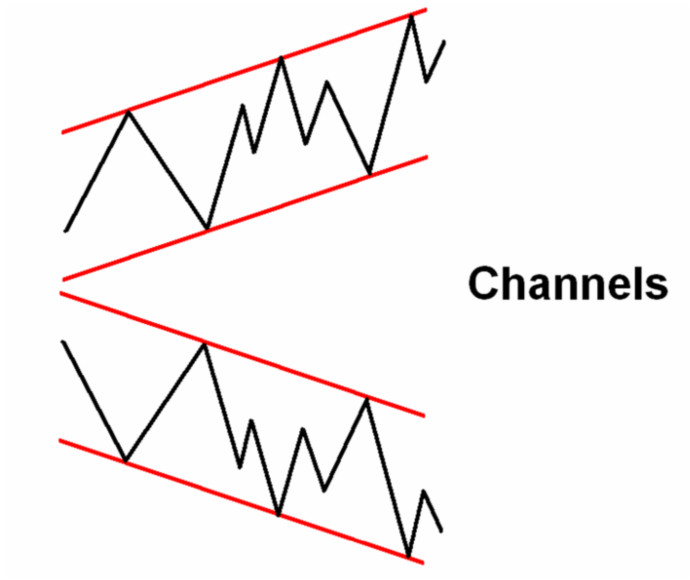
Nevertheless the pattern of the daily chart will help you organize your trades as the smaller picture unfolds.

The same is true for all daily chart patterns if you understand the obvious ones.

If you are not sure of pattern implications you should study the Edwards and Magee bible.

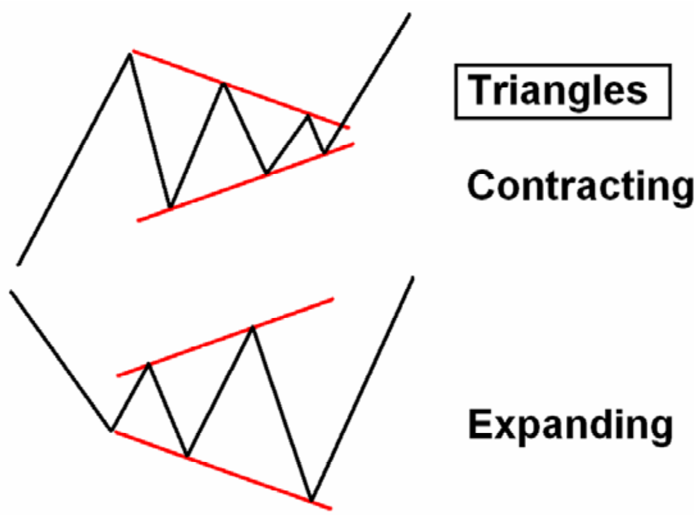
TECHNICAL ANALYSIS OF STOCK TRENDS
By Robert D Edwards and John Magee
1st Edition 1948

CHANNELS:



From time to time channels form on the daily and weekly charts, these imply the market can continue up or down in the big picture until the channel is broken.

TRIANGLES:



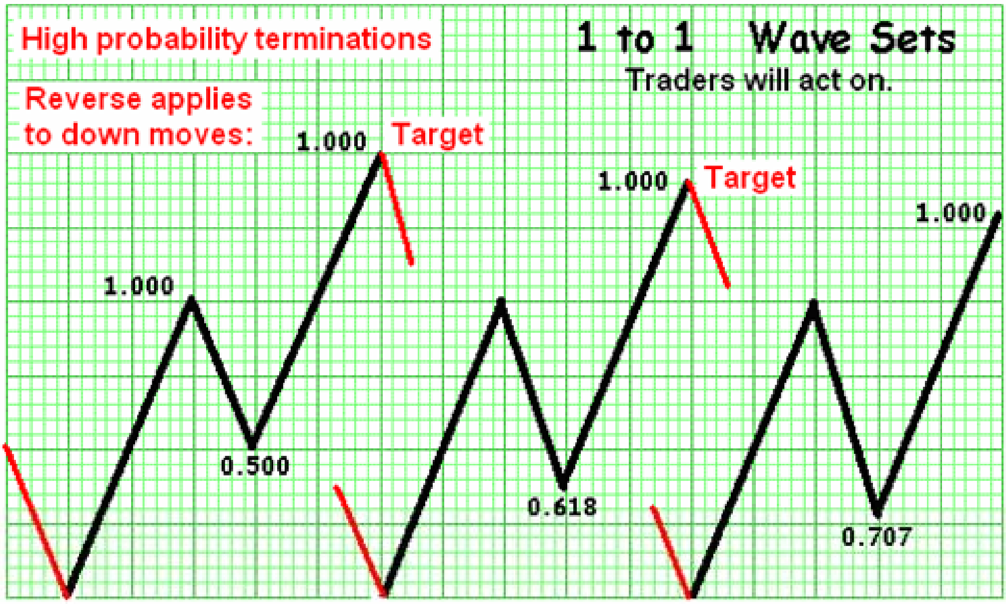
Triangles form in two ways, Contracting Triangles when there is a lack of news and Expanding Triangles when the news is biased but rotates from good to bad and back again.

Chapter 21

1:1 Double Drive Reversal Trade:

These are important technical events that will be recognized by the "smart money" traders.

The perfect ones occur when the correction in the 1:1 falls on CARDINAL geometry that every good Elliottician can easily recognize.


High probability terminations
Reverse applies to down moves:
1 to 1 Wave Sets
Traders will act on.
1.000
0.500
1.000
Target
0.618
1.000
Target
0.707
1.000

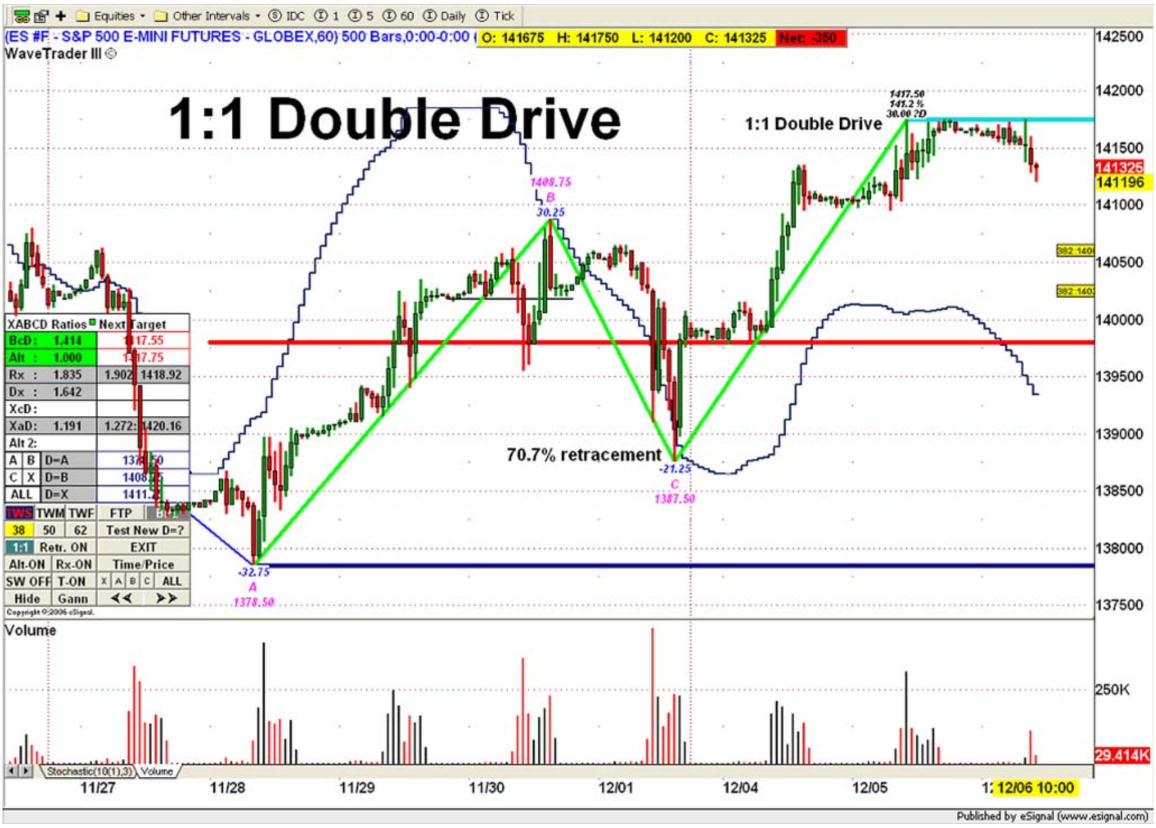
You can get combinations other than these where the correction in between the double drive 1:1 is:-

0.333, 0.382, 0.447, 0.577, 0.764, and 0.786 and these will fulfill the geometry.

Nevertheless any 1:1 double drive in the Medium degree or larger wave structures have the potential to reverse the market action for some time.

The thing to be aware of is that until the unfolding market breaks down through a Medium degree correction 1:1 it will not confirm any major reversal.

So long as you are only taking trades for quick profits as we do, then that won't cause you any concern as these things only start the ball rolling for you. Once you can see the market behaving like it has changed direction in a higher degree you can then work with it as a change in trend in that degree.



Here's an example of one we are working from at the moment.

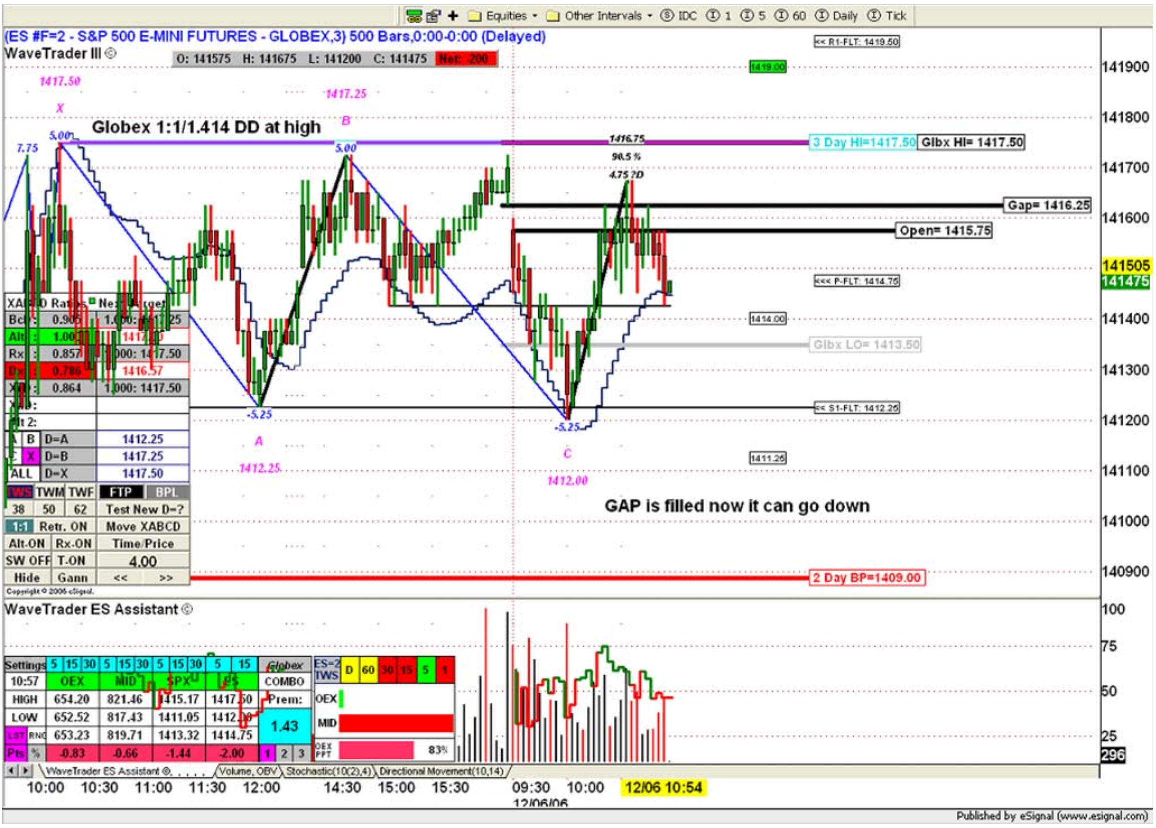
The high yesterday came in on a 1:1 / 1.414 which means the correction in the 1:1 was a 0.707 retracement to the first leg up. Since the high yesterday the market has made several attempts to go above the high and has failed each time.

As a matter of fact there has been three opportunities to sell against the high with a SAR order above to reverse long if the market were to break upwards.

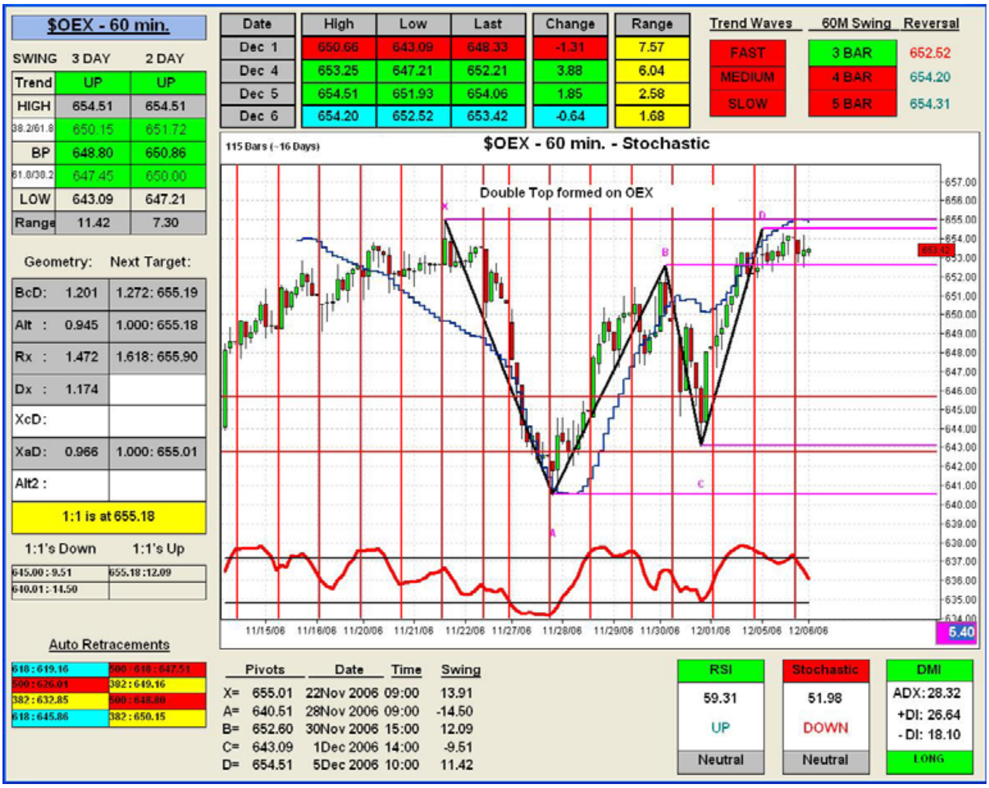
Also this morning the ES reversed back up off a smaller degree 1:1 correction of 5.25 points.

At the moment the ES is backing and filling so the fate is still uncertain in the bigger picture.

I have a chart of where we are right now for you to look at and that should give you a good idea of how things can unfold after one of these larger degree 1:1 DD come into play.



Also something else present right now is the OEX struggling at a double top.



$OEX - 60 min.

SWING	3 DAY	2 DAY
Trend	UP	UP
HIGH	654.51	654.51
38.2/61.8	650.15	651.72
BP	648.80	650.86
61.8/38.2	647.45	650.00
LOW	643.09	647.21
Range	11.42	7.30

Geometry:	Next Target:
BcD: 1.201	1.272: 655.19
Alt : 0.945	1.000: 655.18
Rx : 1.472	1.618: 655.90
Dx : 1.174	
XcD:	
XaD: 0.966	1.000: 655.01
Alt2 :	

1:1 is at 655.18

1:1's Down	1:1's Up
645.00 : 9.51	655.18 : 12.09
640.01 : 14.50	

Auto Retracements

618 : 619.16	500 / 618 : 647.51
500 : 626.01	382 : 649.16
382 : 632.85	500 : 648.80
618 : 645.86	382 : 650.15

Date	High	Low	Last	Change	Range
Dec 1	650.66	643.09	648.33	-1.31	7.57
Dec 4	653.25	647.21	652.21	3.88	6.04
Dec 5	654.51	651.93	654.06	1.85	2.58
Dec 6	654.20	652.52	653.42	-0.64	1.68

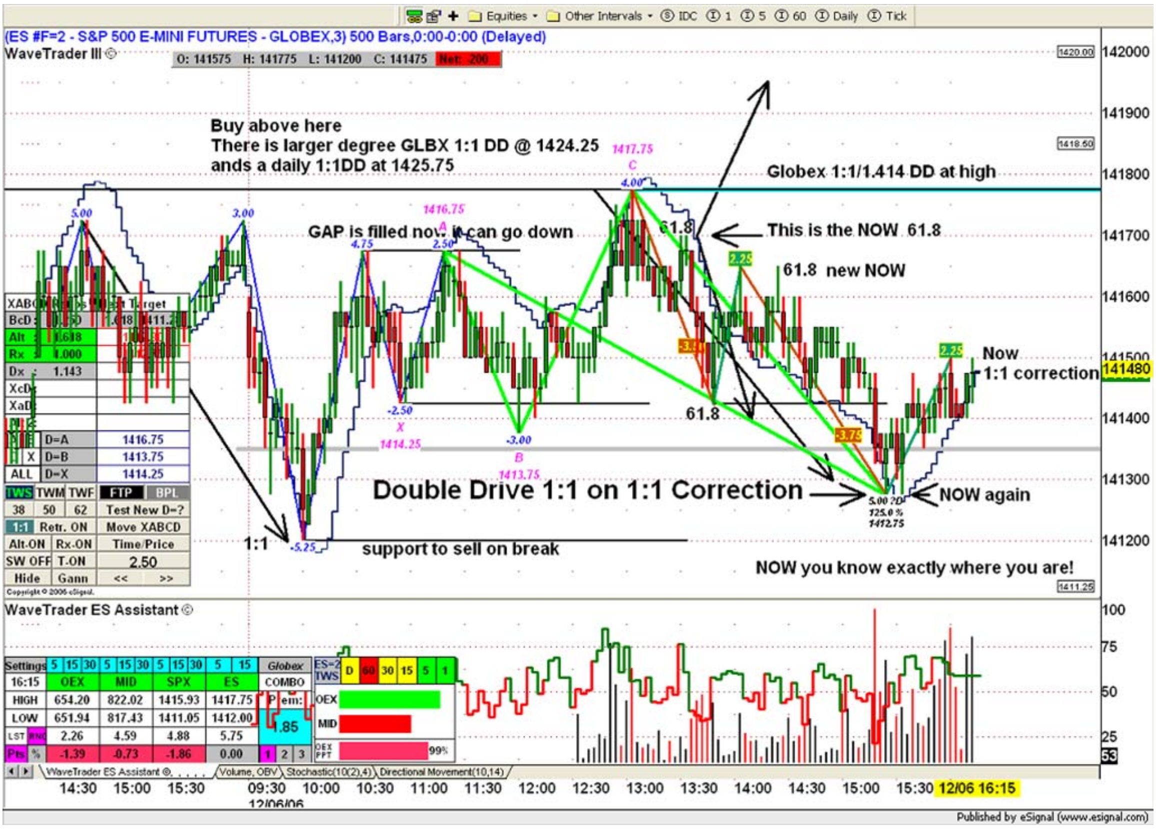
Trend Waves	60M Swing	Reversal
FAST	3 BAR	652.52
MEDIUM	4 BAR	654.20
SLOW	5 BAR	654.31

Pivots		Date	Time	Swing
X=	655.01	22Nov 2006	09:00	13.91
A=	640.51	28Nov 2006	09:00	-14.50
B=	652.60	30Nov 2006	15:00	12.09
C=	643.09	1Dec 2006	14:00	-9.51
D=	654.51	5Dec 2006	10:00	11.42

RSI	Stochastic	DMI
59.31	51.98	ADX: 28.32
UP	DOWN	+DI: 26.64 - DI: 18.10
Neutral	Neutral	LONG

115 Bars (~16 Days)
$OEX - 60 min. - Stochastic
Double Top formed on OEX
X
B
D
C
A
653.42
657.00
656.00
655.00
654.00
653.00
652.00
651.00
650.00
649.00
648.00
647.00
646.00
645.00
644.00
643.00
642.00
641.00
640.00
639.00
638.00
637.00
636.00
635.00
634.00
11/15/06
11/16/06
11/20/06
11/21/06
11/22/06
11/27/06
11/28/06
11/29/06
11/30/06
12/01/06
12/05/06
12/06/06
5.40

This is how the day went.


Equities · Other Intervals · IDC · 1 · 5 · 60 · Daily · Tick
(ES #F=2 - S&P 500 E-MINI FUTURES - GLOBEX,3) 500 Bars,0:00-0:00 (Delayed)
WaveTrader III ©
O: 141575 H: 141775 L: 141200 C: 141475 Net: 200
Buy above here
There is larger degree GLBX 1:1 DD @ 1424.25
ands a daily 1:1DD at 1425.75
Globex 1:1/1.414 DD at high
GAP is filled now, it can go down
This is the NOW 61.8
61.8 new NOW
Now
1:1 correction
61.8
Double Drive 1:1 on 1:1 Correction
NOW again
1:1
support to sell on break
NOW you know exactly where you are!
5.00
3.00
4.75
2.50
1416.75
A
1417.75
C
4.00
-2.50
X
1414.25
-3.00
B
1413.75
-5.25
5.00 2D
125.0 %
1412.75
2.25
3.75
142000
141900
141800
141700
141600
141500
141480
141400
141300
141200
XABCD
BcD
Alt
Rx
Dx
1.143
XcD
XaD
Target
1.618
1.000
D=A 1416.75
D=B 1413.75
D=X 1414.25
ALL
TWS TWM TWF FTP BPL
38 50 62 Test New D=?
1:1 Retr. ON Move XABCD
Alt.ON Rx.ON Time/Price
SW OFF T.ON 2.50
Hide Gann << >>
Copyright © 2006 eSignal.
WaveTrader ES Assistant ©
100
75
50
25
ES=2 TWS
D 60 30 15 5 1
OEX
MID
OEX PPT
99%
WaveTrader ES Assistant ©
Volume, OBV
Stochastic(10,2,4)
Directional Movement(10,14)
14:30 15:00 15:30 09:30 10:00 10:30 11:00 11:30 12:00 12:30 13:00 13:30 14:00 14:30 15:00 15:30 12/06 16:15
12/06/06
Published by eSignal (www.esignal.com)

Settings	5 15 30	5 15 30	5 15 30	5 15	Globex
16:15	OEX	MID	SPX	ES	COMBO
HIGH	654.20	822.02	1415.93	1417.75	P em:
LOW	651.94	817.43	1411.05	1412.00	1.85
LST RNG	2.26	4.59	4.88	5.75	
Pts %	-1.39	-0.73	-1.86	0.00	1 2 3

When the high was made at 1:03pm (by 1 tick which actually fulfilled the 1:1 DD exactly) the MID had broken to a new high and so had the SPX, but the OEX was still lagging below previous highs and was the anchor holding the market back. Without the OEX making a break to new highs the market refused to go on with it and retreated for most of the afternoon.

Although today was a tight range day there were consistent technical situations that attracted buyer and seller participation.

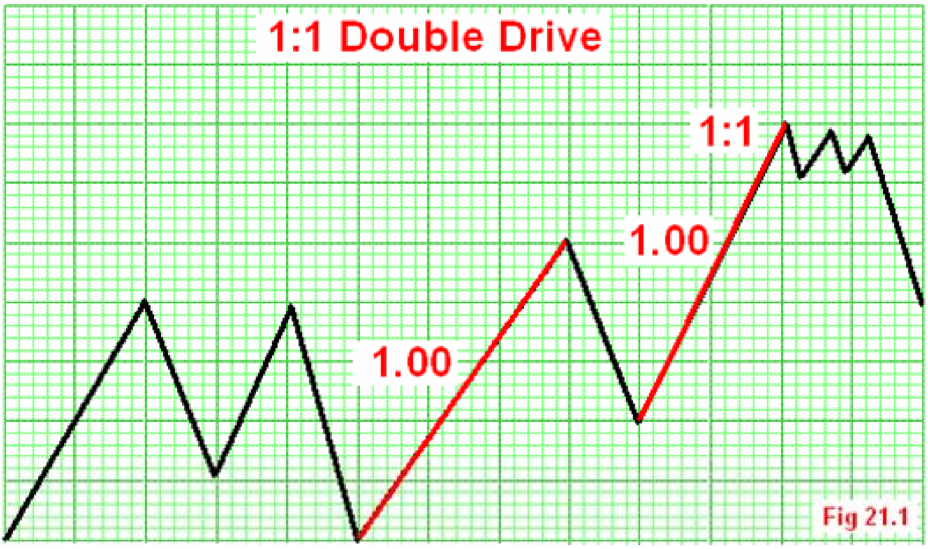
An interesting day all told and the market is still showing inner strength unless it breaks below 1412.

It does not matter what it does, we will have an answer for it as it moves along.

Tomorrow is rollover day to the March 07 contract so these charts will mean nothing when that happens. For the next week or so we just have to follow the CASH SPX for the geometry.

Nevertheless after a week or so there will be enough 3 minute, 5 minute and 15 minute data available to make trading decisions off.

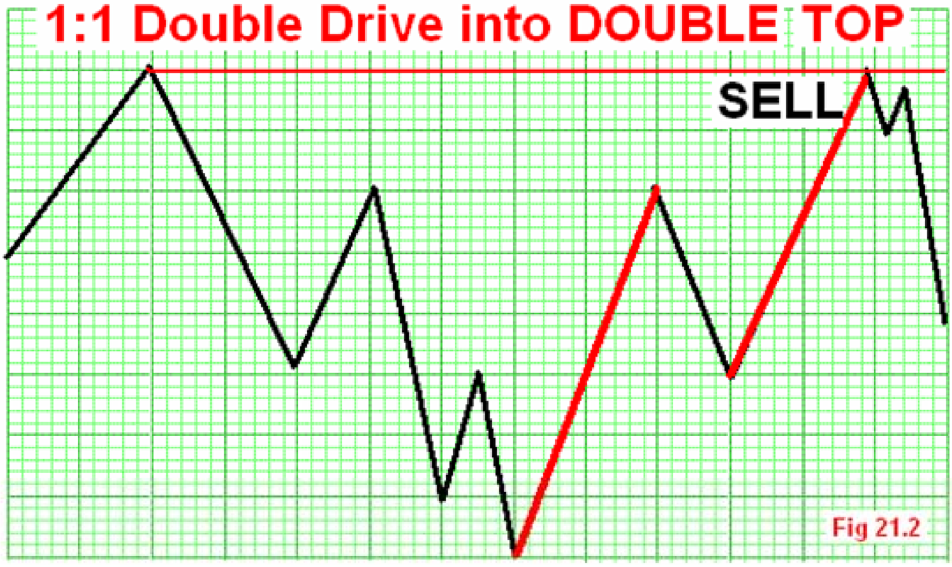
THIS IS THE STANDARD 1:1 DOUBLE DRIVE PATTERN:



If the market is in an uptrend or a downtrend it makes no difference to the geometric principles. 1:1 DD's are basically target areas to aim for in the current move if they appear to be feasible formations. When you have clear air or are in a blue sky area the larger degree 1:1's seem to be more important.

In the medium degree and lesser degree swing patterns for a reversal of any consequence to take place at them you really need to have other reasons to believe the market has reached a MEDIUM degree SWING support or resistance level that could be qualified by the position of the SPX or the OEX.

DOUBLE TOPS & DOUBLE BOTTOMS terminating in a 1:1 Double Drive:



THE OTHERS YOU NEED TO BE AWARE OF FOR SET UP TRADES ARE:

1:1 DD's into a 50 retrace and 61.8 retrace. Also 1:1 DD's into a larger degree 1:1 corrections.

These are regular events in the smaller intraday picture if you have the WaveTrader software. If you are monitoring the cash market via the OEX, MID and the SPX you will be able to define the strength or weakness surrounding the market mood as you approach these critical levels.

Most of the time I just view 1:1 double drives as a target area for a trade to get to. Nevertheless if you are arriving at any recognizable implied support or resistance level the profit takers could step in there.

If the SWING degree is of the larger degree variety then the consequences maybe different and you could see a tradable reversal take place.

The more you watch the market the better a feel for it you will have. I would never say that every time these things happen the market will reverse, yet if the conditions are ideal then they are almost certain.

That's where you need to be a good all rounded analyst to oversee the conditions you are dealing with. If you think this is just a mechanics job you are mistaken.

The more evidence you have for a trade the better off you will be, and if you can always say you have 3 good reasons for any trade the chances you will be right move to the order of 2 to 1.

Now if you think about it anyone can arrange a gambling plan around being right two times out of three if you have a strict money management plan to keep any trouble at bay.

Whatever you do in the future with the lessons you learn from me I insist that you religiously stick to my 6 tick stop loss rule and do not overtrade on guesses. If you don't then I cannot be responsible for any losses you will incur. You may get lucky on occasion but in the long run the only way to remain a winner is with discipline.

There will be times in the market you will experience where even the biggest dope could make money from what is going on, this is all part of the game plan.

You will have this opportunity because you will be working the market each day and if you follow my approach the obvious will be very obvious to you.

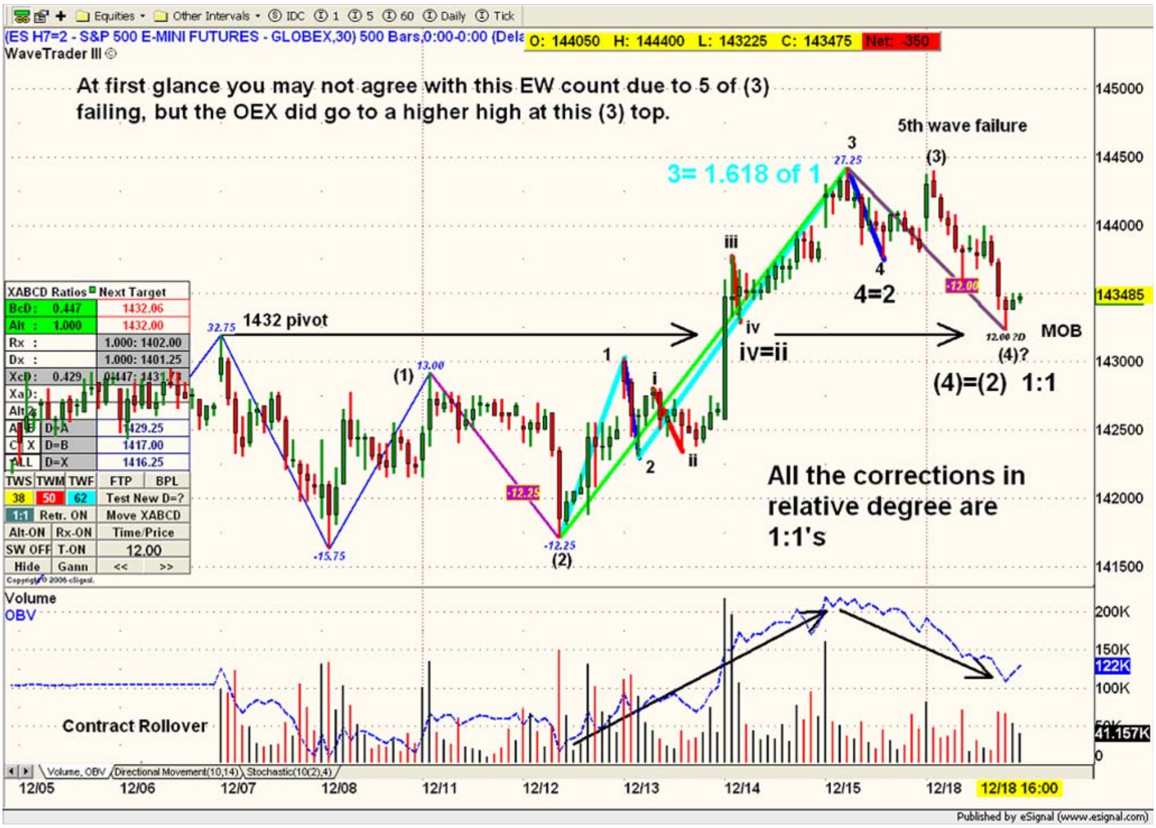
Chapter 22

1:1 Correction Re-Entry Trade:

Market corrections range in swing degree, for instance in a running trend it often makes 2 or 3 small corrections followed by new impulses before it needs a breather and then makes a larger correction to everything that went before in the smaller degree swings. This process continues ad infinitum when the larger degree trend is moving higher or lower.

During the process of larger degree trends the market will run for a while and then consolidate or have set backs before it moves on. The 1:1 correction rules give you a logical place to anticipate the resumption to the larger degree trend that is in place.

The first thing you need to be sure of before taking any re-entry trade using the 1:1 rule is to be confident that the market has not done anything major to negate the reason for it to resume a path consistent with the bigger picture.

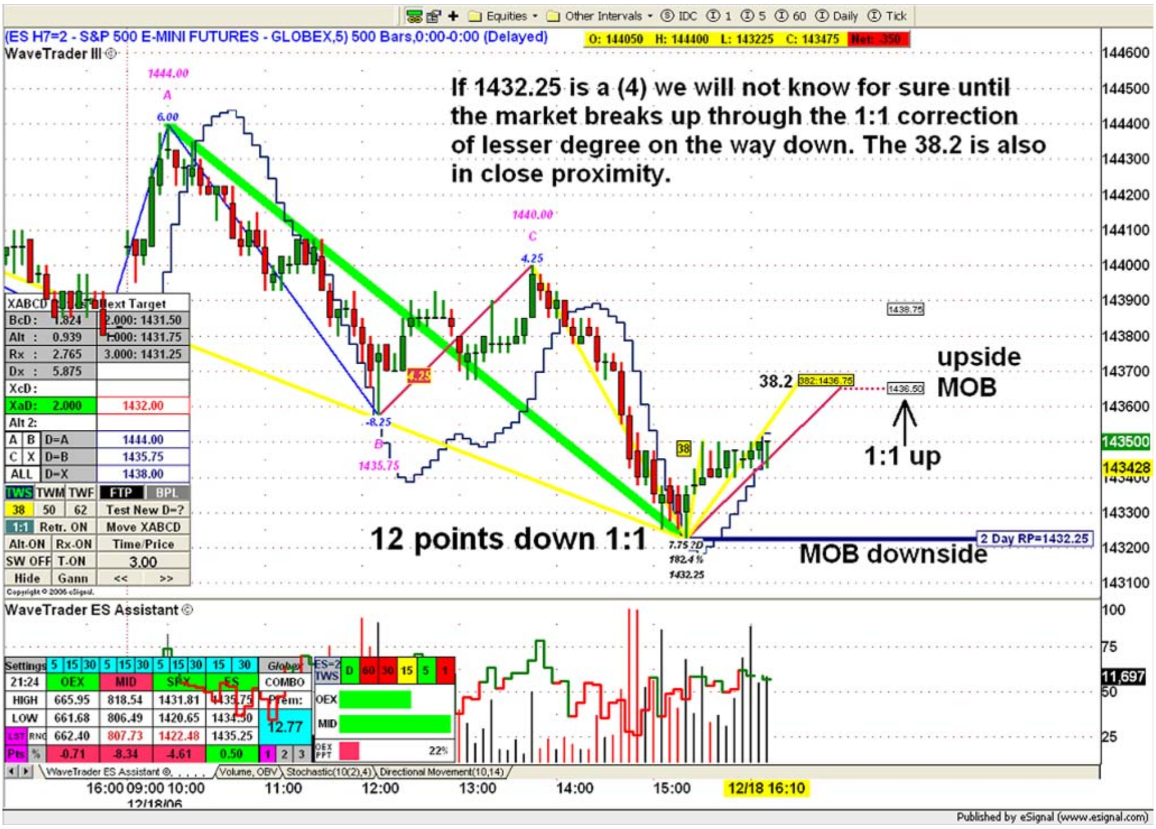


At first glance you may not agree with this EW count due to 5 of (3) failing, but the OEX did go to a higher high at this (3) top.

All the corrections in relative degree are 1:1's

The best way to decide if the case has merit is to refer the market position to support or resistance levels of larger degree.

Elliott Wave theory will assist you in making the correct decisions regarding the ongoing trend. Without a working knowledge of the EW theory most of the set ups I use will be "Double Dutch" to you in any case.


If 1432.25 is a (4) we will not know for sure until the market breaks up through the 1:1 correction of lesser degree on the way down. The 38.2 is also in close proximity.

12 points down 1:1

upside MOB

1:1 up

MOB downside

To prove 1432.25 is a valid MEDIUM DEGREE reversal level the ES needs to rise above the 1:1 of lesser degree (overbalance it). This 1:1 is 4.25 points up from the low. A 38.2 of the 12 down lie's only 1 tick above the 1:1 as well. So if the ES broke above it would be a strong sign.

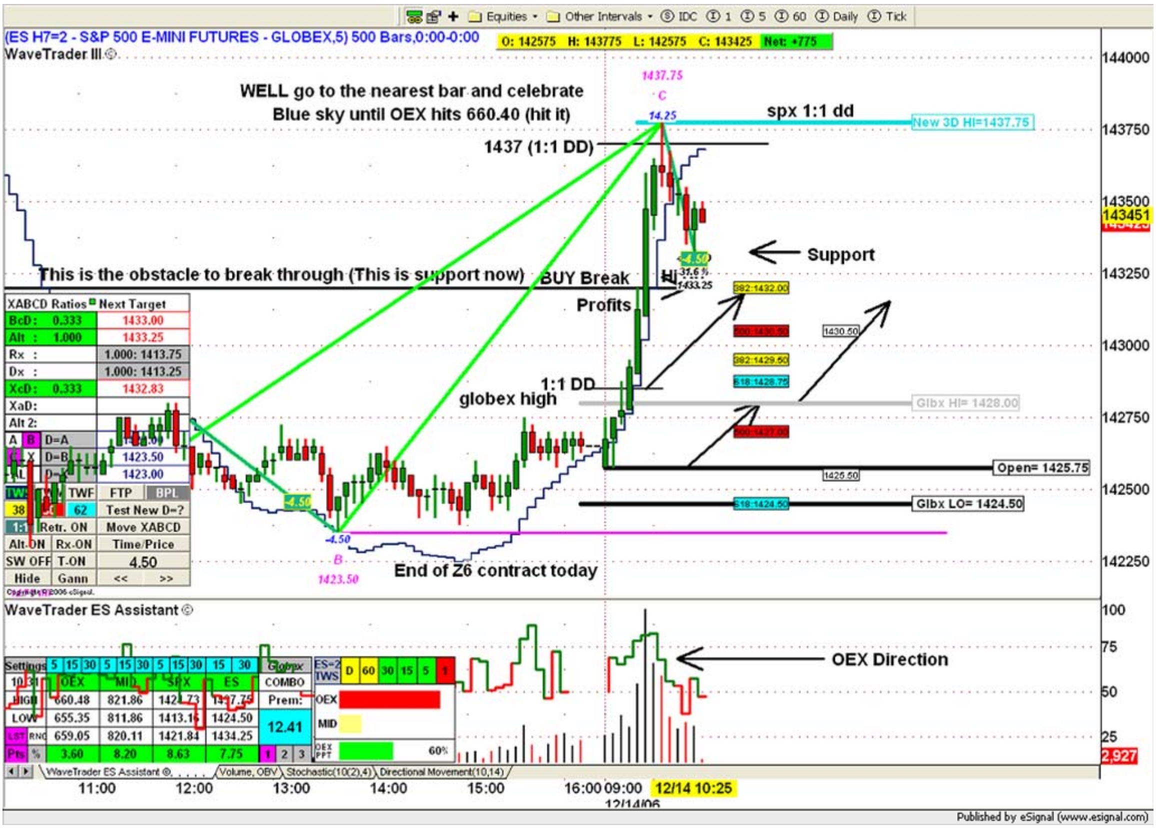
If on the other hand the market does not overbalance the upside 1:1 and we break below 1432.25 there is ample evidence to go short for a much deeper dive down.

It is all a matter of moving along one step at a time and letting the market tell you what it is most likely to do.

Traders will buy when they think the market is good value and they will sell when they think it is overvalued.

This business is an ongoing auction, that's all. All we need to know is the levels that traders will act upon, it is that simple; you can write that on my gravestone.

So I can explain a little more we need to take a look back at a few days past. When the market made the breakout above 1432 to the iii wave high it stopped when the OEX made a double top. The day was a buy from the outset and a kind one to those in the know.



The largest swing correction we had experienced from W 2 was the termination I labeled W ii and it was 4.50 points. So the logical support from the days high was a drawdown of 1:1 with the 4.50 points.

The correction in progress first rebounded off -4.50 a point or so and then came back for another test making a break of 1 tick to -4.75, from thereon the market continued to move up slowly for the rest of the day.

Some people would never believe these things to be possible yet they happen all the time. Once you have witnessed them often enough you too can have the faith to trade them on the button.

The market is always telling you its direction by its behavior and strict adherence to a structure. When there is no structure the market becomes vague and is usually being driven on news events. News events or technical structure makes no difference to me as I can differentiate between the two and know what to do at the time.

Here is an interesting case:

This example shows one thing after another at the smaller, small, medium and large swings from morning to mid afternoon.

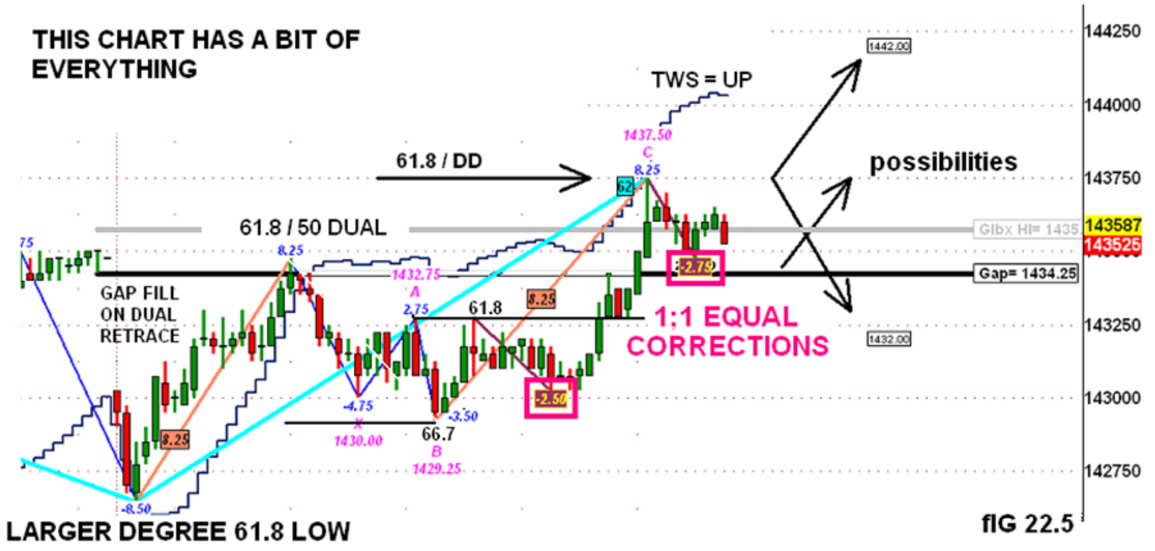


fIG 22.5

The ES ultimately went up 5.75 points from the 1:1 correction low to a new retracement high of 78.6 in the same degree as the prior 61.8 / DD high.

The 60 minute chart below was snapped early morning the next day. The EW labels are somewhat dubious but I can't find a way to label them any differently at this time. The larger (1) could be a (3) but I don't like wave (4) to overlap an obvious earlier (1).

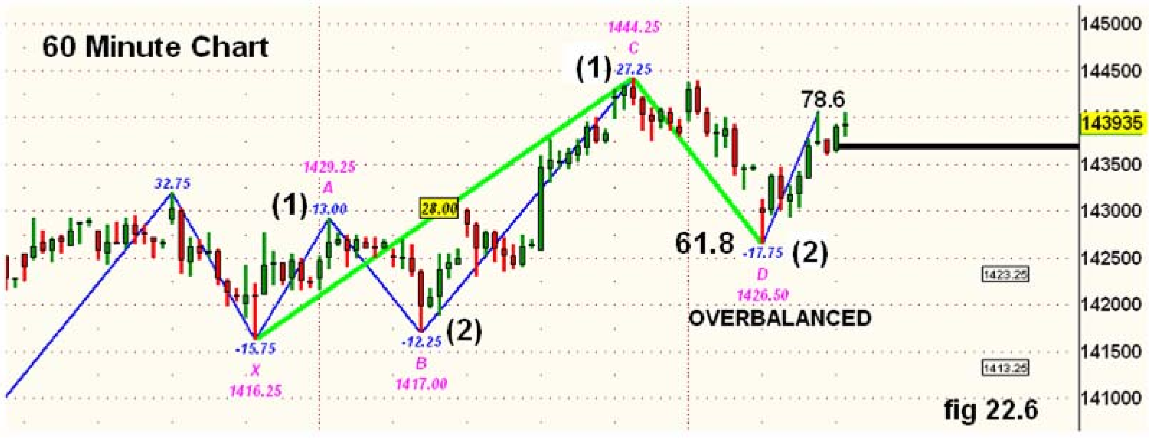
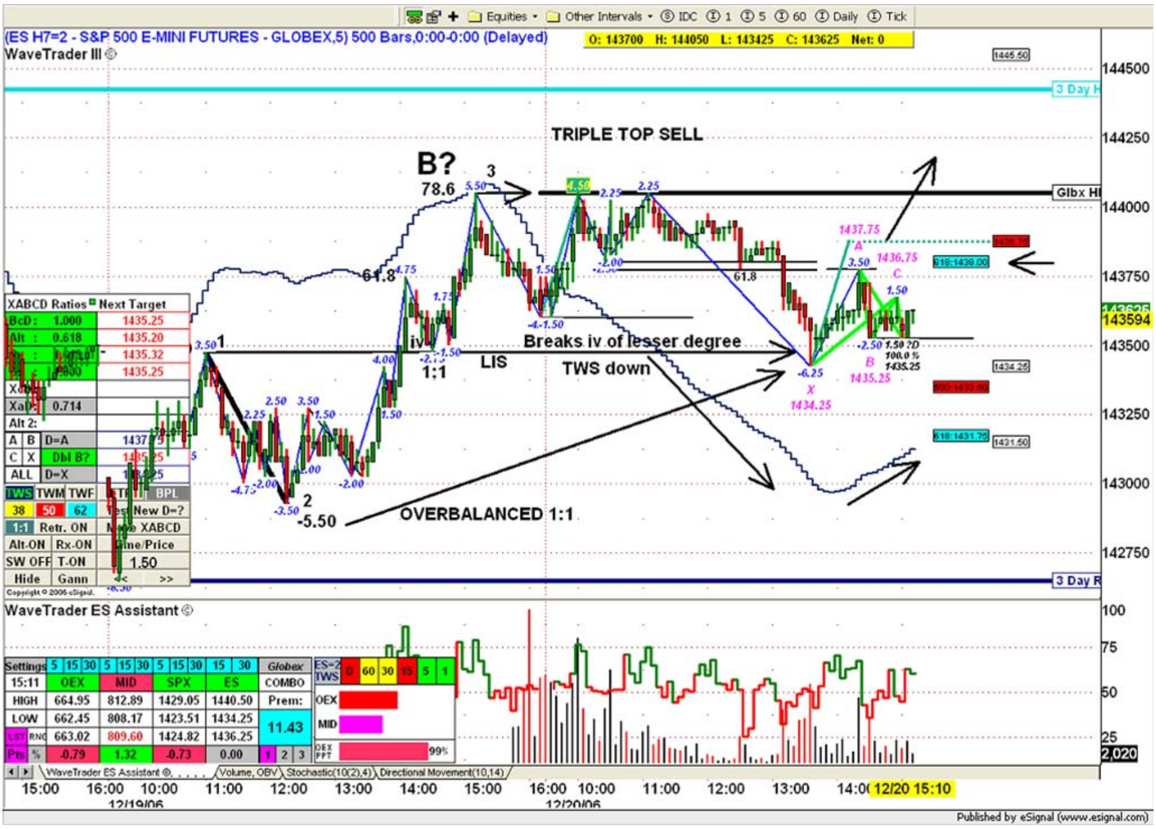


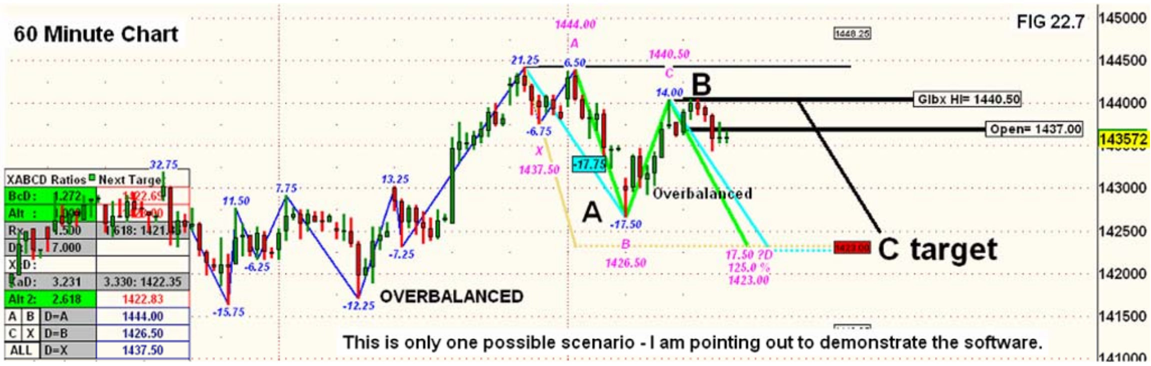
fig 22.6

It will not matter what the count is just now as we still have to break to a new high to validate it anyway.

The new day ground away for ages without breaking the 78.6 retrace high from yesterday.



As the day progressed the largest correction of 5.50 – W2 was overbalanced with a 6.25 and a low below the W iv of lesser degree. The implication you could attach to this is that the high at 1440.50 where you see the triple top was some form of corrective wave in larger degree. This is why I have labeled it with a B?.



This is only one possible scenario - I am pointing out to demonstrate the software.

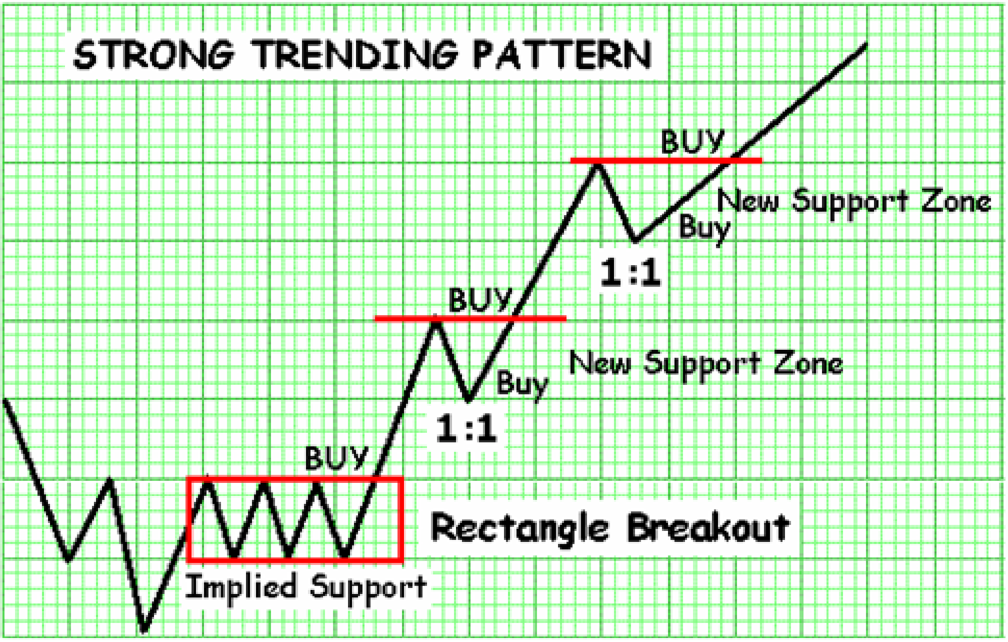
I don’t trade off scenarios but they can be helpful if the market moves along and they look like they are working from the point of view of traders who do.

1:1's in STRONG TRENDING PATTERNS:

Once you can see you are in a strong trending pattern the 1:1 correction in small and smaller degree is an excellent place to re-enter with the trend.

Usually a breakout from a consolidation pattern is evidence enough to think you can make reasonable ground on the day.

Most of the time a strong trend is only held up by profit takers and then it resumes once they are out of the way.



One thing you should always bear in mind is that the traders who have money are not scared to take everyone on when things look right. For a novice with a small account you might be scared to take the trade when it is available. Yet if you use my tight stop method you have little to risk at the time.

Just do it if the opportunity looks right and you will be amazed at the results.

In this world there are leaders and followers. The leaders always have the advantage and they have the experience behind them not to drop the baton in the middle of the game.

If you want to win big in this business you have to take chances when everything is in your favor, if you don't you will end up as an also ran.

It's not really where you want to be. As long as the cash market is agreeing you have little to worry about.

OTHER 1:1's to watch for:

THE RUNNING 1:1 CORRECTION

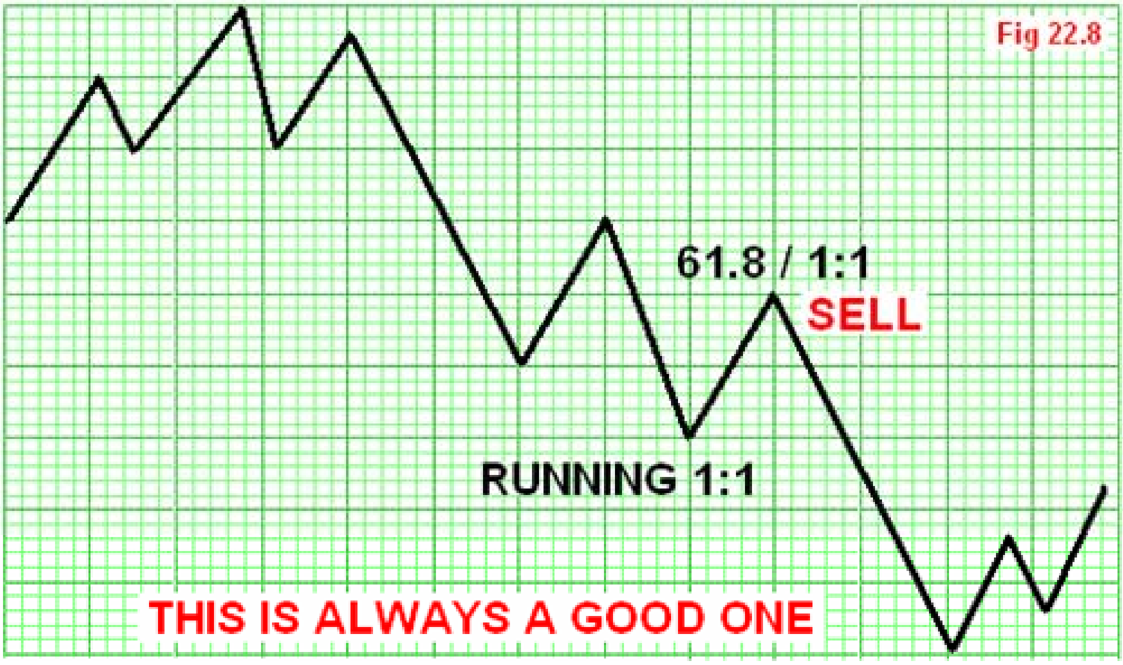
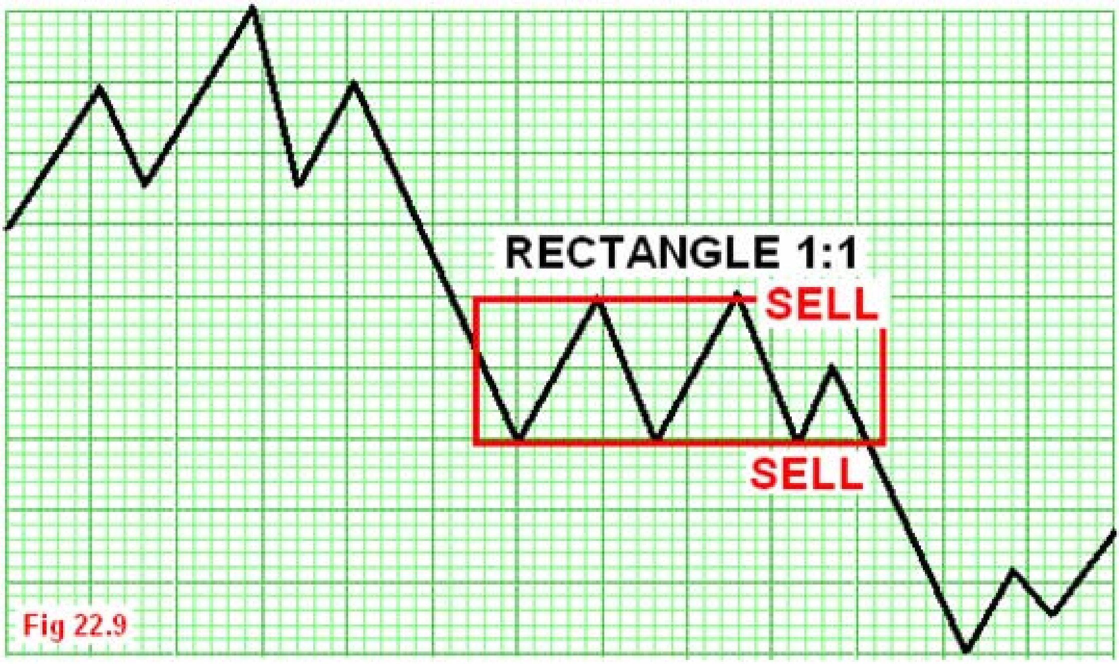
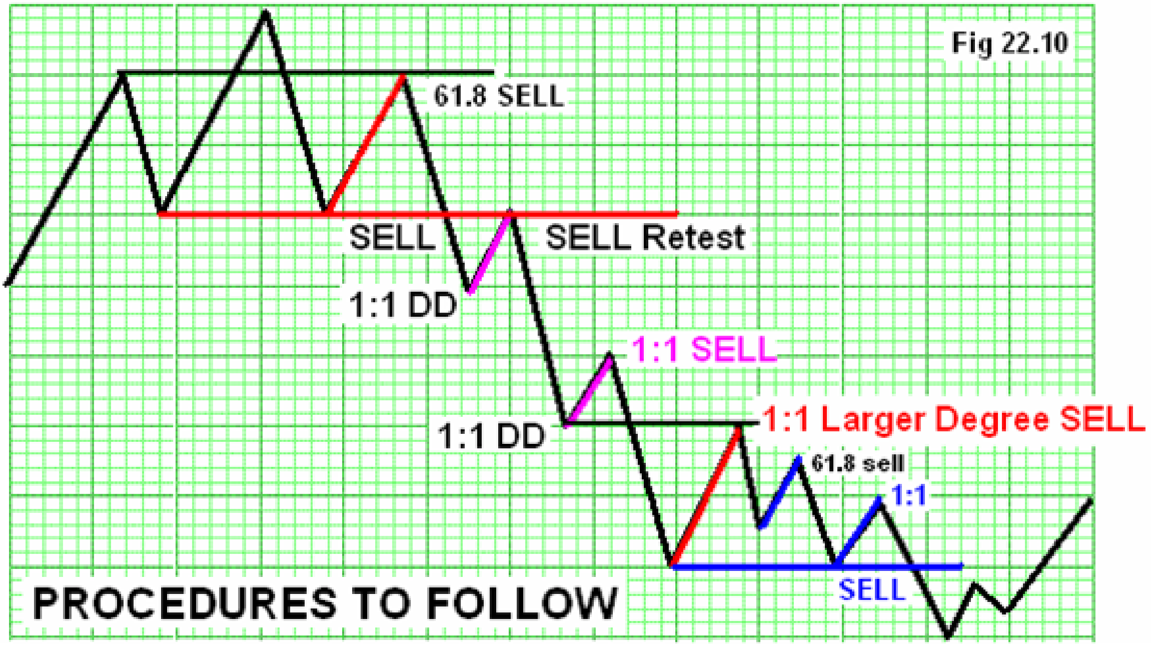


Fig 22.8
61.8 / 1:1
SELL
RUNNING 1:1
THIS IS ALWAYS A GOOD ONE

THE RECTANGLE 1:1 CORRECTION


RECTANGLE 1:1
SELL
SELL
Fig 22.9

PROCEDURES TO FOLLOW:



If the market is directional and starts to decrease the price range in corrections it will usually make two to three smaller 1:1's before making a larger 1:1 correction as the swing series unfolds. The overall trend should be considered intact whilst the larger 1:1's are not overbalanced. 1:1 corrections imply strength in the ongoing trend and leave other opportunities to trade breakouts and sometimes some 50/61.8 retracements after a 1:1 reversal.

As the market moves along always use the 1:1's to evaluate SWING DEGREE.

SMALL & MEDIUM DEGREE 1:1's which break down.

Each time the 1:1 rule breaks down without reversing the market for any length of time you have to reconsider your options. Sometimes it maybe prudent to reverse the other way with the new trend and others it is better to stay sidelined. It all depends on where the next higher degree 1:1 lies. There also maybe a larger degree 38.2, 50 or 61.8 that might reverse the market.

Usually if a MEDIUM DEGREE swing series is going to reverse the market back the other way the low or high in the correction will unfold within two days of the larger degree swing high or low where the correction began. It will be accompanied with very high volume right to the tick.

So the rule you have to follow is to not give up on the larger degree trend until it has been going the opposite way for longer than 3 days. There are plenty of short term opportunities trading counter trend in MEDIUM and LARGER degree corrections.

When the 1:1's fail they are sending a message to the "smart guys" that the old trend is in trouble so that will get things moving as well.

You must at all times read the signs the market is sending you to stay on the right side of it.

The 1:1 rule is the best rule I have to do this, the 3 day and 2 day Gann swing direction in conjunction with the 50% balance point is the other. In the tight spots I use the TREND WAVE, SLOW STOCHASTIC and the VOLUME and ON BALANCE VOLUME.

I never look at things like Bollinger Bands as they are so subjective it is a joke. I met the guy once and he is in another world to me. In fact a lot of the educators I have met personally are in another world. It's typical of the industry to have people try and make everything look simple to newcomers but unfortunately it does not help them.

I would rather tell you there is a lot to learn and if you don't want to invest the time well you better forget it.

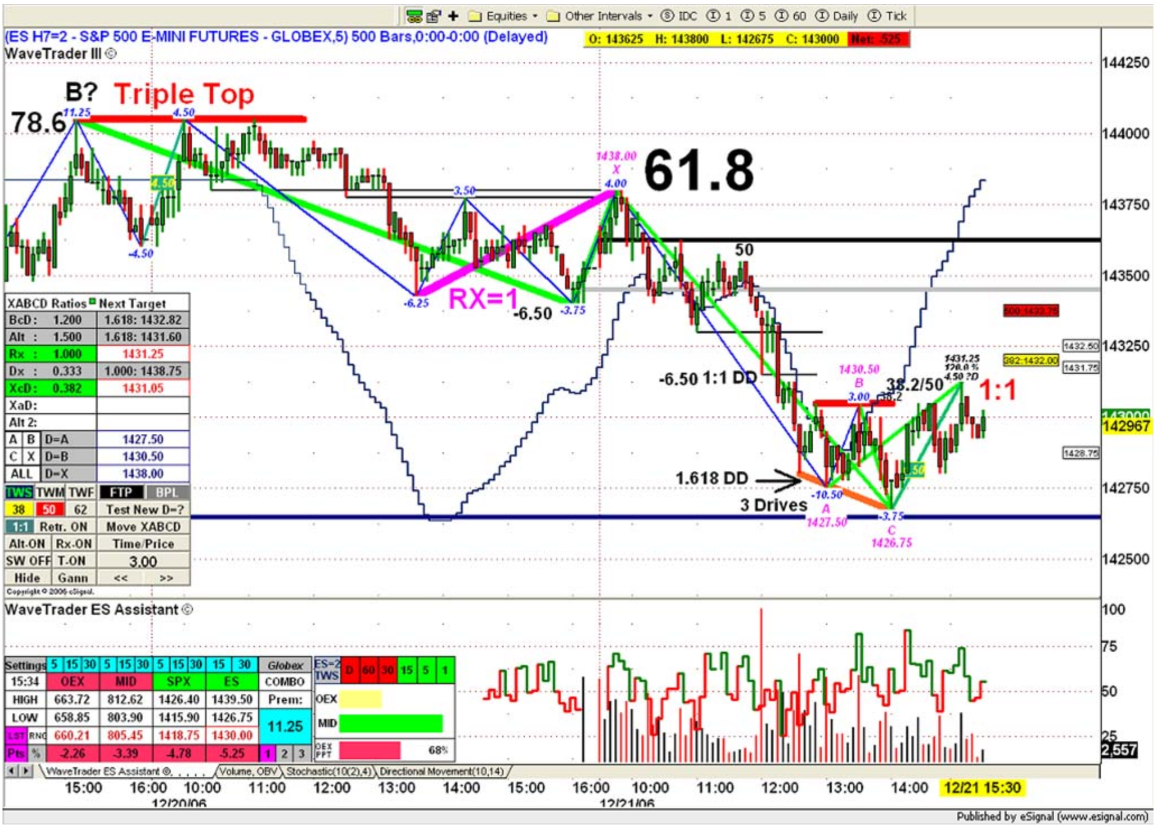
I have a method that will hold you in good stead in any style of market activity, how many of these show boat seminar speakers can claim the same with their 8 point stop loss theories and vague entry point rules?

I really don't want to stick the boot into them but to be honest my opinion is that they don't trade and never have; otherwise they would know the reality of it.

If you really want to get a control over the market you need the screen time and to witness the repetition of the unfolding patterns in real time. The repetitions are mostly going to work if there is volume in the market. Some days they won't work for reasons we have no control over, nevertheless when the market is active the repetitions become reliable.

Some days you will have to be careful if there has been a very swift move in one direction or the other with a radical reversal. The reason is usually that some big traders have made a big profit and they just retire for the day leaving the riff raff to muddle the control of things.

ANOTHER DAY OLDER:


Equities
Other Intervals
IDC
1
5
60
Daily
Tick
(ES H7=2 - S&P 500 E-MINI FUTURES - GLOBEX,5) 500 Bars,0:00-0:00 (Delayed)
O: 143625 H: 143800 L: 142675 C: 143000 Net: -525
WaveTrader III ©
B? Triple Top
78.6
11.25
4.50
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RX=1
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1438.00
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1430.50
B
3.00
38.2/50
38.2
1431.25
120.0 %
4.50 ?D
1:1
1.618 DD
3 Drives
-10.50
A
1427.50
-3.75
C
1426.75
1.50
500:1432.75
382:1432.00
1432.50
1431.75
1428.75
144250
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143750
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Alt-ON Rx-ON Time/Price
SW OFF T.ON 3.00
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Copyright © 2006 eSignal.
WaveTrader ES Assistant ©
ES=2 TWS
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OEX PPT
68%
WaveTrader ES Assistant ©
Volume, OBV
Stochastic(10(2),4)
Directional Movement(10,14)
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14:00
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12:00
13:00
14:00
12/20/06
12/21/06
12/21 15:30
Published by eSignal (www.esignal.com)

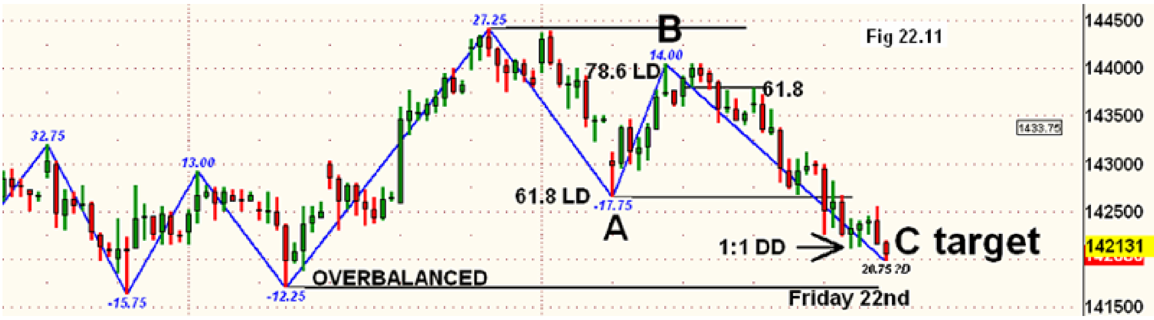
XABCD Ratios	Next Target
BcD: 1.200	1.618: 1432.82
Alt : 1.500	1.618: 1431.60
Rx : 1.000	1431.25
Dx : 0.333	1.000: 1438.75
XcD: 0.382	1431.05
XaD:	
Alt 2:	
A B D=A	1427.50
C X D=B	1430.50
ALL D=X	1438.00

Settings	5 15 30	5 15 30	5 15 30	15 30	Globex
15:34	OEX	MID	SPX	ES	COMBO
HIGH	663.72	812.62	1426.40	1439.50	Prem:
LOW	658.85	803.90	1415.90	1426.75	11.25
LST RNG	660.21	805.45	1418.75	1430.00	
Pts %	-2.26	-3.39	-4.78	-5.25	1 2 3

Today didn't disappoint anyone who understands the PRICE ACTION method as all the clues were clearly established yesterday.

The market bounced at 1:55pm from the low of 2 days back which was not surprising having made 3 drives to finally get there. It has been sideways in a 4.50 point range back to the 1:1 with second top at yesterdays high.

Most of the heavy hitters have left for the day by now judging by the volume. Tomorrow is Friday and Monday is the Xmas day holiday so it is a good time to wrap up this chapter. The 1:1 "C" Target scenario was reached on Friday.



Chapter 23

The 61.8% Retracement Trade:

The opportunity of a 61.8 retracement trade comes along just about everyday of the week. The only exception is when the market just falls or rises in a straight line.

61.8's come in every swing form from smaller, small, medium, large, larger and major.

The 61.8 retracement reversal is so popular with traders that you need to always focus on the market action as it approaches one.

When the 61.8 combines with other implied support or resistance levels such as a prior swing pivot, line in the sand, 1:1 correction or terminates on a 1:1 double drive it has a high probability to stop the market in its tracks.

The stopping phase may turn into a market reversal of some magnitude but that will only be proven as you move forward. Nevertheless the 61.8 level is the ideal place to set an order to if you think the market is susceptible to a reversal.

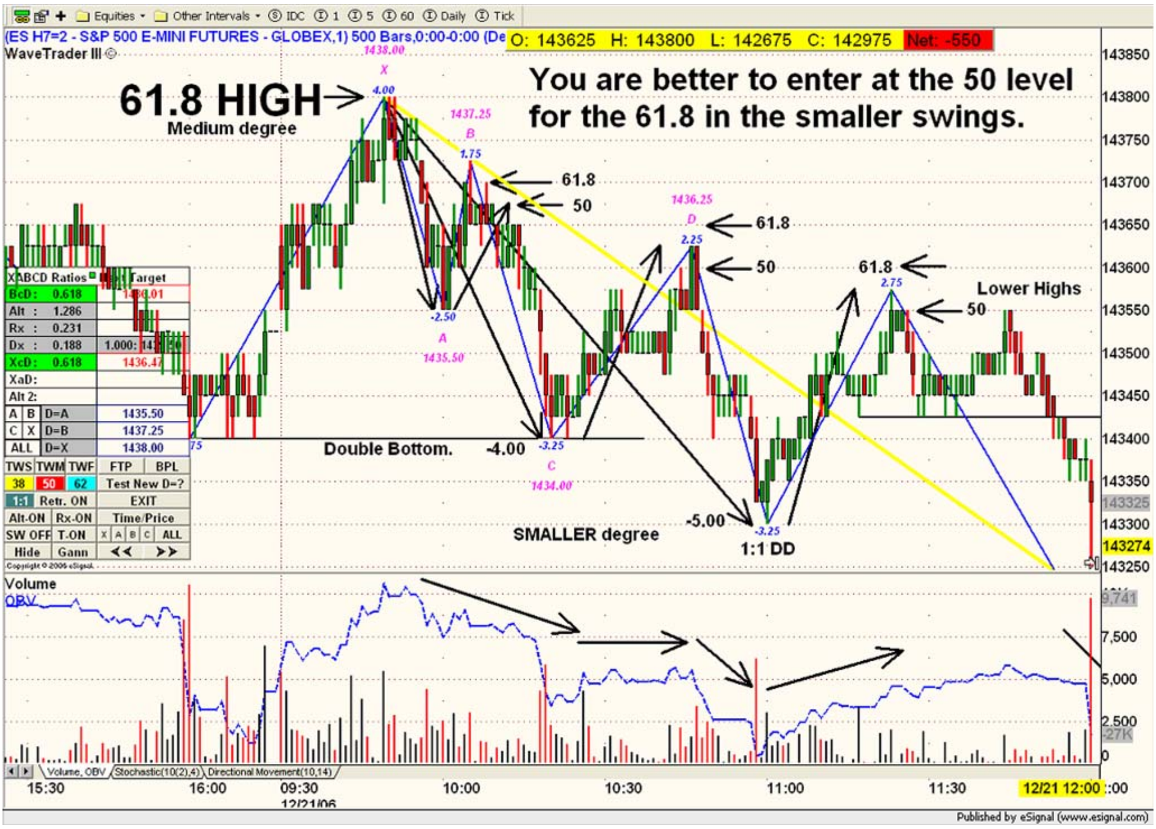
In the smaller swings your allowance for error should not exceed 1 tick for the ES, in the larger swings 2 ticks is as far as I would accept. The only problem with the smaller swings where you are working with a range of less than 5 points (handles) you have to allow the market a few ticks to go to the 66.7 level if it overruns. This is not a geometric problem it is more to do with market facilitation. Sometimes the ES will reverse on 1 tick more and other times 1 tick less so you have to place your orders with this in mind.

If you look at the chart on the previous page the range down was 6.50 points and the retracement to 61.8 was 4.00 points. Ticks were 26 down and 16 up which came out at exactly 0.615 (ideal).

Generally when the ES hits a strong level of resistance or support it will correct and either come back again to form a mini double top or bottom or it will make the first change in direction and then retrace 61.8 of the smaller correction. This gives you the opportunity to enter the trade after you have seen the initial reversal and the action of the trades at the first decision point.

To fully appreciate this price action you need to be running a 1 minute chart when you are looking to place your orders at the time.

HERE'S AN EXAMPLE:



You are better to enter at the 50 level for the 61.8 in the smaller swings.

Once you have got a foothold on your trade you can either place a stop loss above the previous pivot (high in this case) and work the stop down to 1 tick above the previous pivot (highs in this case) or leave it out of range and then move it to breakeven when you have a pivot to work off and then set a profit target; then go for a walk for an hour.

If you want to be aggressive you can add to your position once some reliable 1:1 correction pattern becomes obvious to you.

The best approach to trading I have found is to locate an entry point that implies the MEDIUM DEGREE trend is heading in a reliable direction and then use the smaller swing patterns to judge your entries. If the market is trending it will keep confirming; as soon as you are unsure it is trending just close out and wait for a new opportunity.

If you are prepared to do the work there is no reason why you won't be profitable.

It is not rocket science you know, it is only work, understanding and a bit of imagination for what is going on around you.

BEFORE TAKING ANY TRADE:

You must have a clear and concise reason for the trade; three reasons are always better than one.

You must have thought about what the market has to do to prove your trade selection is wrong and set a price level within the confines of 6 ticks from your entry point that gets you out of the trade if it does not work like you thought it would.

If you follow these two rules religiously and understand the price action approach to trade selection you cannot go wrong.

My 61.8 RULE:

So long as a market move does not retrace more than 61.8 of any decline or advance that degree of swing it is in is still intact. If the market retraces more than 61.8 of any swing degree and exceeds the 1:1 correction rule for that degree you are moving up a level in swing degree.

If you use this rule with a sensible appreciation for the trend indicators it will keep you focused on the larger degree possibilities and also keep you focused when you are dealing with the smaller, small and medium degree progressions.

The real point is that you can’t actually use these rules as a system, you still have to approach your trade selections using the set ups I am explaining to you. The set ups are paramount to your success as they are the only way you can get a clean entry that only requires a small stop loss to prove it right or wrong.

ANOTHER THING ABOUT TRADING YOU SHOULD REMEMBER:

Small and consistent profits are good for your health. Resist the urge to get greedy and hang onto positions. Never think of getting married to a position as there is always another one coming your way. Take what you can get when everything looks right and sit on your hands when you are unsure.

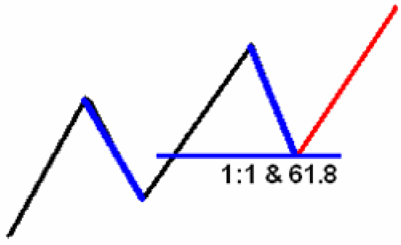
Over trading is the biggest trap to the uninitiated.

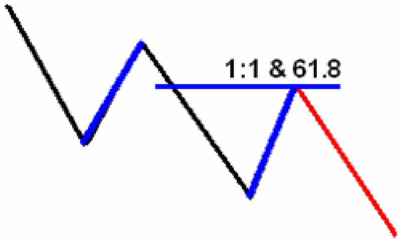
Only trade when you can figure everything is in your favor. If you watch the reports, the news and the market mood the short term set ups will stand out as either high probability or a risk not worth taking.

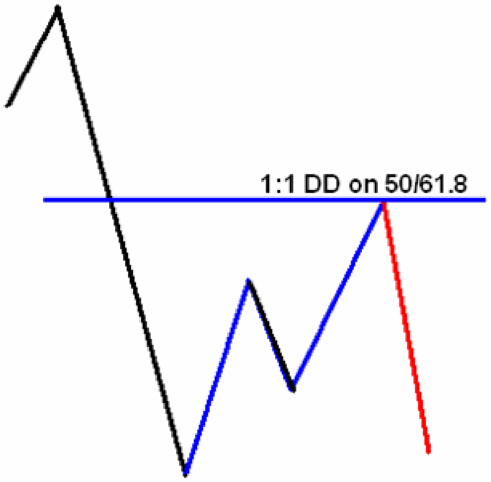
61.8 RETRACEMENTS IN MEDIUM DEGREE:

If you want to be consistent the only way you can be is to have two or more reasons for any trade you are contemplating.

The 1:1 double drive and 1:1 corrections criteria is a good means to exploit a 61.8 level of medium degree. Even in the smaller swings this criteria can appear regularly.







The main thing when you use this approach to select a trade is you evaluate the directional indicators.

If the level is being made in the medium degree the expected reversal should at least be in the direction of the 60 minute and daily overall trend or the indicators should be reading overbought or oversold as you arrive at the selected level.

You need to see some signs of an expected exhaustion amongst the traders present as the smart money will be aware of the technical geometry whenever these things come to bare.

Another thing you should always check on is the position of the OEX and make sure it has not broken through some resistance or support prior to the futures reaching your level.

If the OEX is going to run into some technical level at about the same time then there is more likely a better chance of a reversal. If the OEX is no where near any support or resistance it is better to wait for some confirmation before entering your trade.

61.8 RETRACEMENTS IN SMALL DEGREE:

The conditions need to be pretty much the same for all trades when you are trading implied technical support or resistance for a reversal.

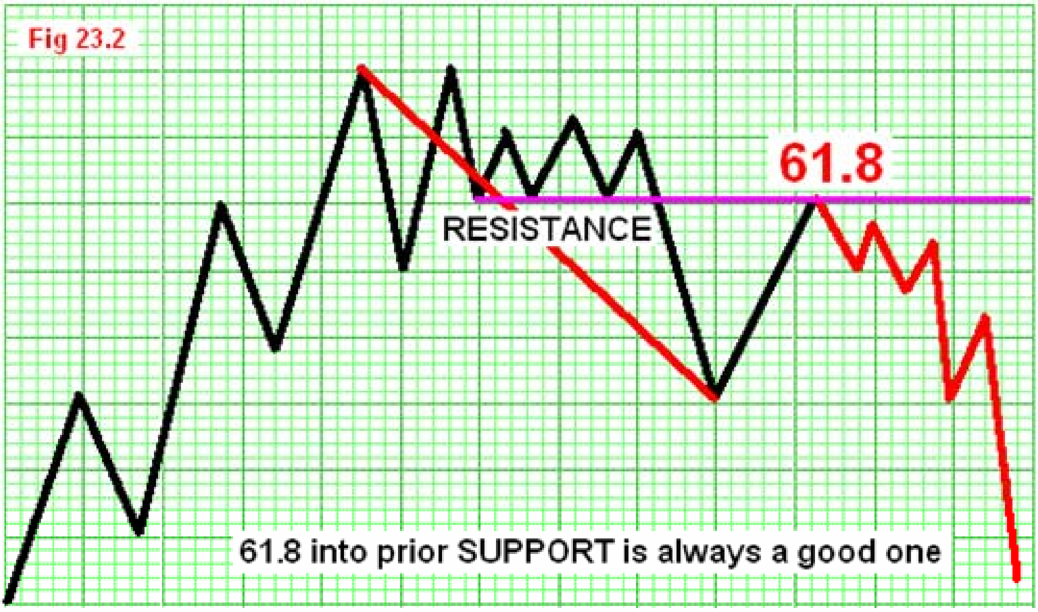
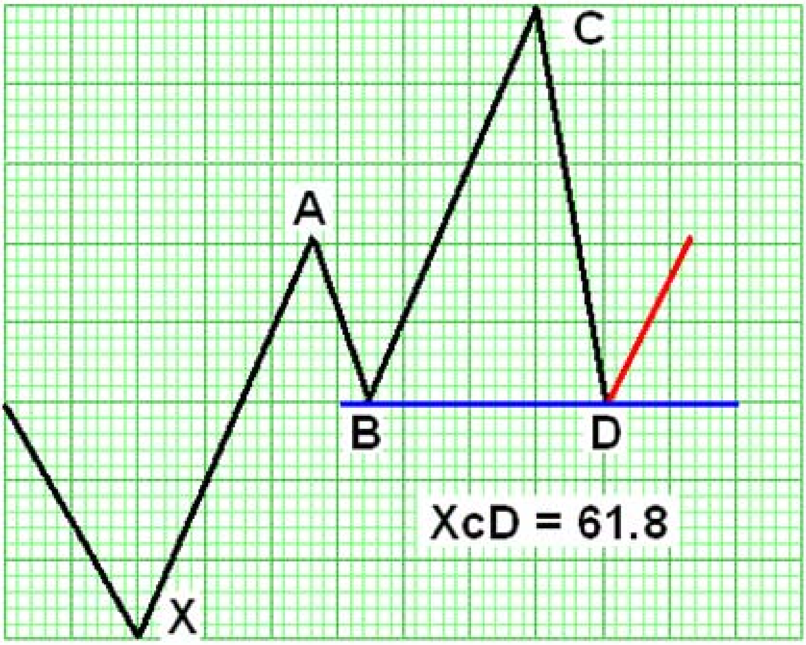


Fig 23.2
61.8
RESISTANCE
61.8 into prior SUPPORT is always a good one


C
A
B
D
XcD = 61.8
X

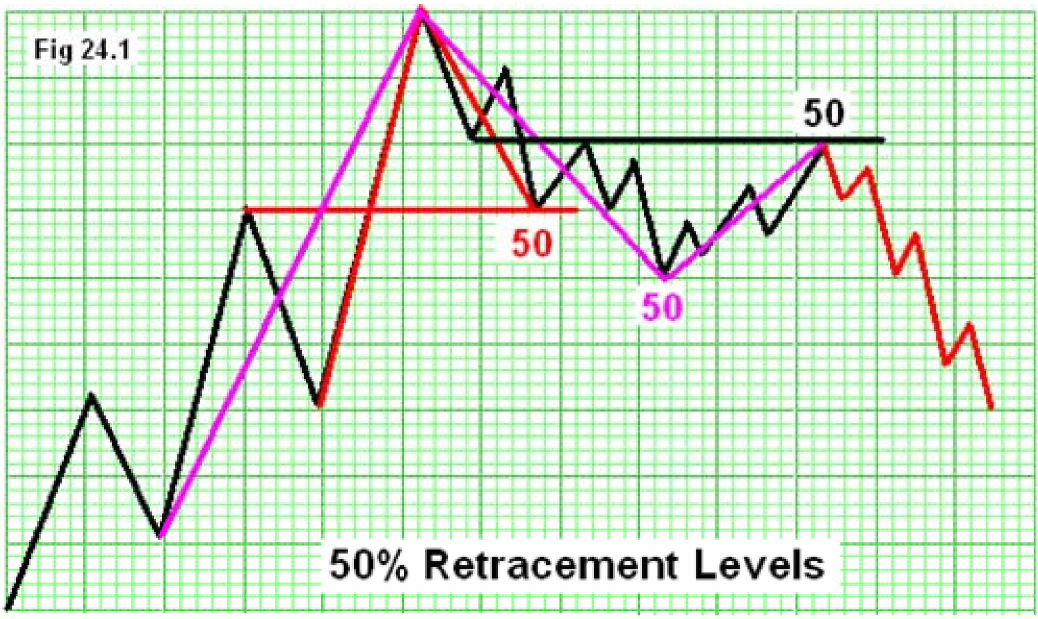
These are just a couple of situations you should be mindful of in the intraday patterns as they unfold.

Chapter 24

The 50% Retracement Trade:

50% retracement levels follow the same rules as 61.8 in most cases and are about as common.

I will add a few more pattern examples here and you can combine them with those listed in the previous chapter.

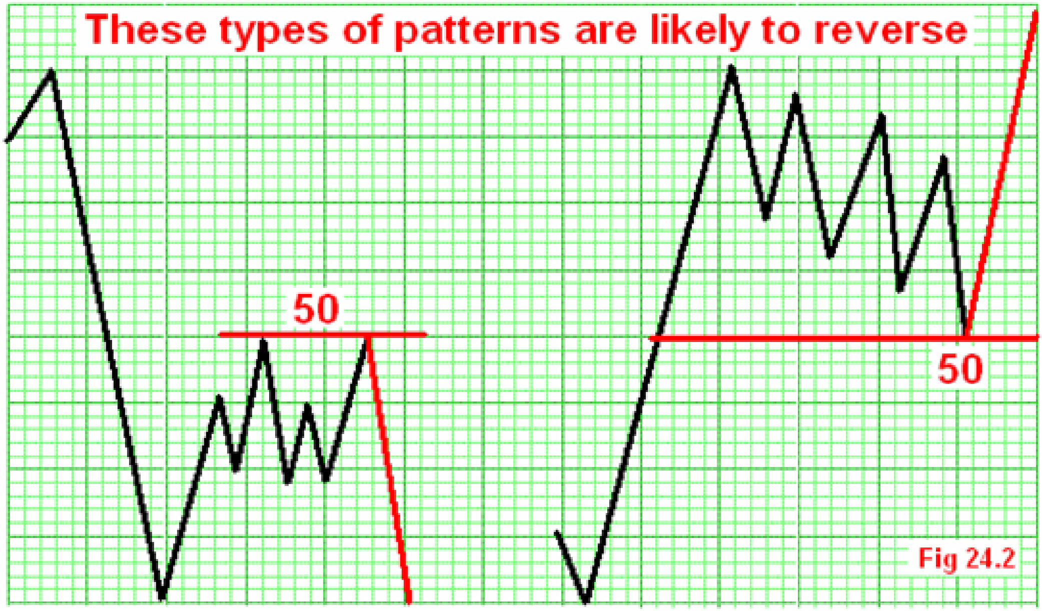


A market pattern like this one is fairly orderly in appearance which would indicate that you are likely to get technical buyers and sellers at old resistance equals new support or old support equals new resistance; especially if the level ties in with a 50 or 61.8 level.

Other times when the 50 and 61.8 will signal reversals is when you get XABCD geometry on a 50 or 61.8 level. You have a variety of different patterns that have already been described in early text you should study for this information.

The two important things about 50 and 61.8 levels is that they signal either total reversals or a temporary reversal when they resist the markets progress. It really depends on the bigger picture SWING DEGREE as to the longevity of any reversal that might take place. There are many times when a 50 retrace of one degree reverses the market and then it will retrace 50 again of the degree it was in before reversing once again back the other way. The best way to keep a clear head is by using the 1:1 correction rule.

50 & 61.8 retracements in non structured pattern:



These types of patterns can reverse on a 50 retrace if the conditions are right. I don’t mean for you to take them for granted as a set up trade, but if they do reverse on a 50 or a 61.8 you will regain your bearings on the market possibilities ahead.

The variety of patterns possible is quite amazing, nevertheless out of one pattern comes another one and they are all telling a story as they unfold.

Either they are clear or they are muddy, but whatever they are they keep you informed as to who is in control. Maybe no one is in control some days for hours on end and then all of a sudden a situation arises where the smart money jumps on top all of a sudden. They are the guys we want to get on the right side of.

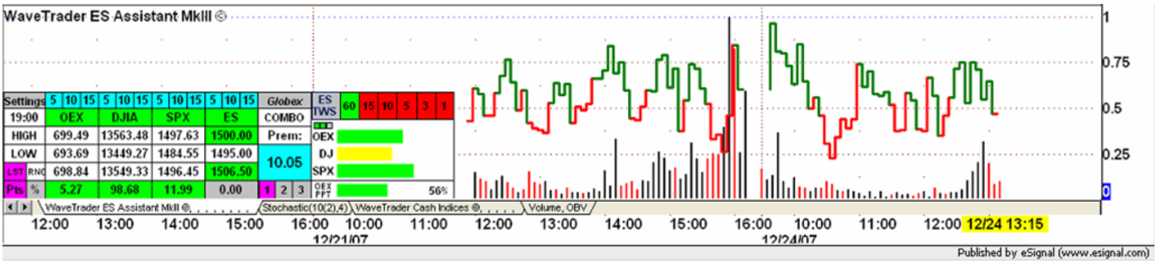
You will know what I mean by this when you get enough screen time behind you and see the occasions where it is so obvious a blind man could spot it.

The thing about 50 & 61.8 retracements is that they give you a look in at the interest in the market when they hit. If you are not monitoring them and do not see what reaction they get at the time they hit you will be none the wiser about the market whatsoever. I’ve seen all this before and it is beyond me why some people just don’t listen to good advice. There are many times when you don’t want to trade 50 & 61.8 retracements just because they don’t have any supporting evidence surrounding them to get you to trade. But they could clear up the picture for you and that leads to a trade not so far away in the future. It’s all part of the process you need to go through to be a savvy trader.

50% in every SWING DEGREE:

Is the BALANCE POINT of any move; if the larger degree trend is down or up and you get a 50% reversal it will tell you the trend is still intact.

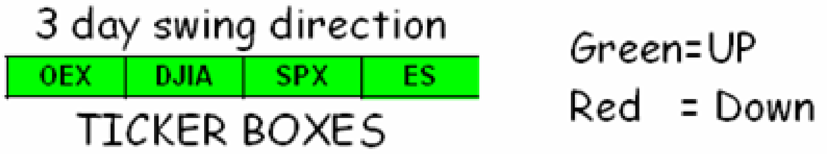
Medium degree 50% retracements will generally only take one or two days to unfold. In this context they will be a counter trend direction to the 3 day GANN SWNG.



WaveTrader ES Assistant MkIII ©

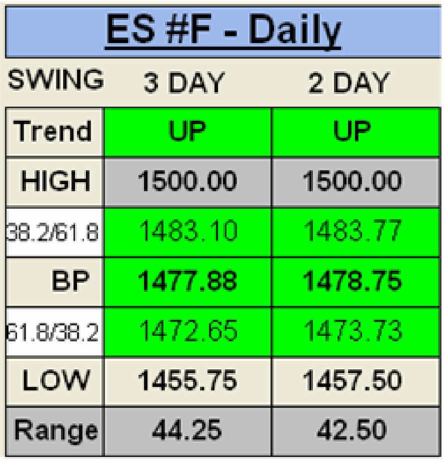
Settings	OEX	DJIA	SPX	ES	Globex
	5 10 15	5 10 15	5 10 15	5 10 15	
19:00	OEX	DJIA	SPX	ES	COMBO
HIGH	699.49	13563.48	1497.63	1500.00	Prem:
LOW	693.69	13449.27	1484.55	1495.00	10.05
LST RNG	698.84	13549.33	1496.45	1506.50	
Pts %	5.27	98.68	11.99	0.00	1 2 3

ES TWS
60
15
10
5
3
1
OEX
DJ
SPX
OEX PPT
56%
WaveTrader ES Assistant MkII ©
Stochastic(10(2),4)
WaveTrader Cash Indices ©
Volume, OBV
12:00
13:00
14:00
15:00
16:00
10:00
11:00
12:00
13:00
14:00
15:00
16:00
10:00
11:00
12:00
12/21/07
12/24/07
12/24 13:15
1
0.75
0.5
0.25
0
Published by eSignal (www.esignal.com)



3 day swing direction
OEX
DJIA
SPX
ES
TICKER BOXES
Green=UP
Red = Down

The WT-ES is color coded and a quick glance will immediately tell you the 3 day swing direction. The ticker boxes OEX, DJIA, SPX and ES will be either RED for DOWN or GREEN for UP.



ES #F - Daily

SWING	3 DAY	2 DAY
Trend	UP	UP
HIGH	1500.00	1500.00
38.2/61.8	1483.10	1483.77
BP	1477.88	1478.75
61.8/38.2	1472.65	1473.73
LOW	1455.75	1457.50
Range	44.25	42.50

<<- Swing Boxes will be Red or Green

These boxes are color coded to indicate if price is above or below the range divisions.

Range in swing period.

Within the WT-ES ASSISTANT reports you have tables to display the swing direction and the applicable levels of 38.2, 50 and 61.8 and a RED / GREEN color code to tell you the relative position of the market within the range settings.
This example clearly has the 3 and 2 day swings in the UP position with the price in the higher end of the range indicating a STRONG upward trend.

Now if the SWINGS are up and the INNER LEVELS were all RED they would indicate the market was at the lower end of the range and not in a strong position.

The way to use this indicator as a guide is simple:

When the 3 day swing is DOWN and the price is below the BP (balance point level 50%) your favored trading direction is to be looking for SHORT TRADES.

When the 3 day swing is UP and the price is above the BP your favored trading direction is to be looking for LONG TRADES.

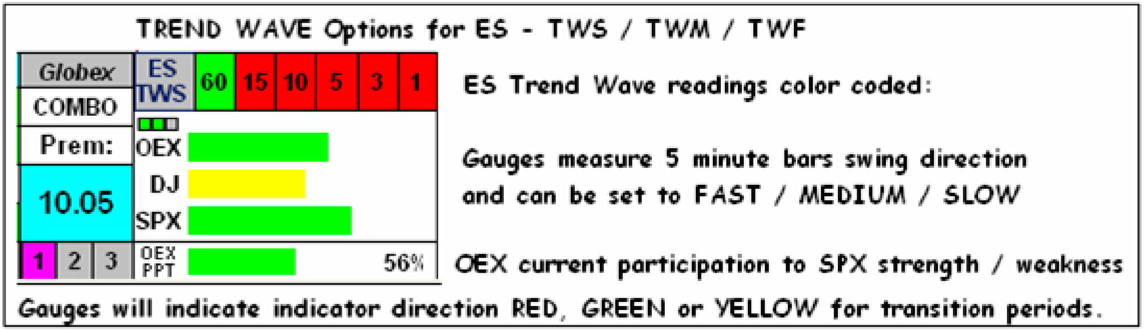
Potentially when the market is rallying in a downtrend and still below the 61.8 level of the 3 day range you should still be focusing on getting a SHORT trade going at higher levels for a continuation move back down.

When the market is correcting down in an uptrend and still above the 61.8 level of the 3 day range you should be focusing on getting a BUY trade going at lower levels for a continuation move back up.

A quick look at the SWING TABLES and the associated colors should keep you focused on what you should be doing. When everything is GREEN you should be buying, when everything is RED you should be selling.

WT-ES ASSISTANT Mk III - Shorter Term Trend Indicators:

These can be used to filter when the time is appropriate to follow the guidelines above.


TREND WAVE Options for ES - TWS / TWM / TWF

ES Trend Wave readings color coded:

Gauges measure 5 minute bars swing direction and can be set to FAST / MEDIUM / SLOW

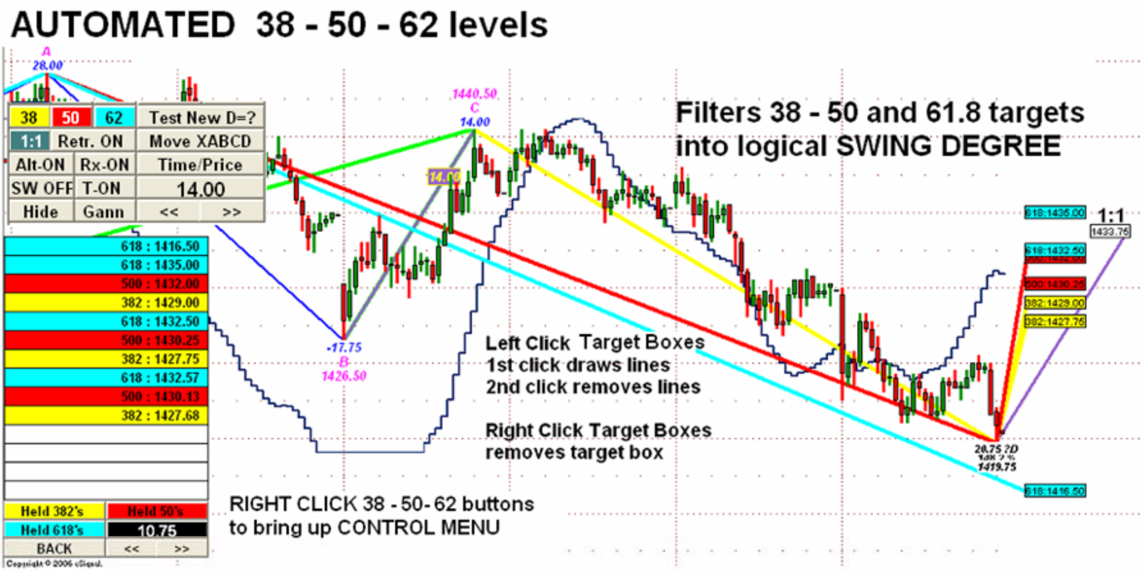
OEX current participation to SPX strength / weakness

Gauges will indicate indicator direction RED, GREEN or YELLOW for transition periods.

These buttons allow you to set the OEX participation from 1 to 3 days if you want to see what the average participation has been. 60% is normal participation, anything above or below will indicate the strength or weakness in the blue chip stocks.

38.2 – 50 – 61.8 levels:

Before trading begins on any new day it is wise to review the potential 38, 50 and 62 retracement levels in Medium and Larger swing degree.



AUTOMATED 38 - 50 - 62 levels

Filters 38 - 50 and 61.8 targets into logical SWING DEGREE

Left Click Target Boxes
1st click draws lines
2nd click removes lines

Right Click Target Boxes
removes target box

RIGHT CLICK 38 - 50 - 62 buttons
to bring up CONTROL MENU

38
50
62
Test New D=?
1:1
Retr. ON
Move XABCD
Alt-ON
Rx-ON
Time/Price
SW OFF
T-ON
14.00
Hide
Gann
<<
>>
618 : 1416.50
618 : 1435.00
500 : 1432.00
382 : 1429.00
618 : 1432.50
500 : 1430.25
382 : 1427.75
618 : 1432.57
500 : 1430.13
382 : 1427.68
Held 382's
Held 50's
Held 618's
10.75
BACK
A
28.00
1440.50
C
14.00
-17.75
B
1426.50
20.75 ?D
1419.75
1:1
1433.75
618:1436.00
618:1432.50
500:1430.25
382:1429.00
382:1427.75
618:1416.50
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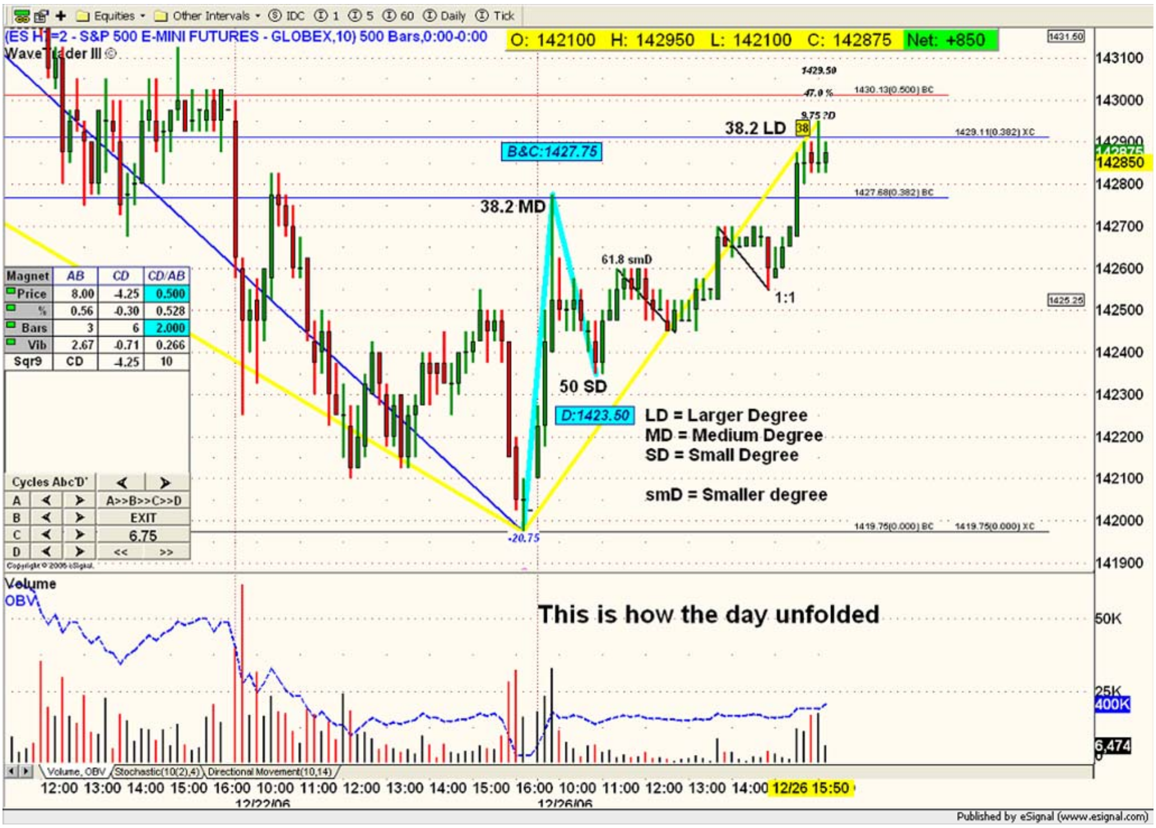
WT III chart of the ES shows the Medium and Larger degree implied resistance.



(ES H7=2 - S&P 500 E-MINI FUTURES - GLOBEX,10) 500 Bars,0:00-0:00
O: 142100 H: 142950 L: 142100 C: 142875 Net: +850

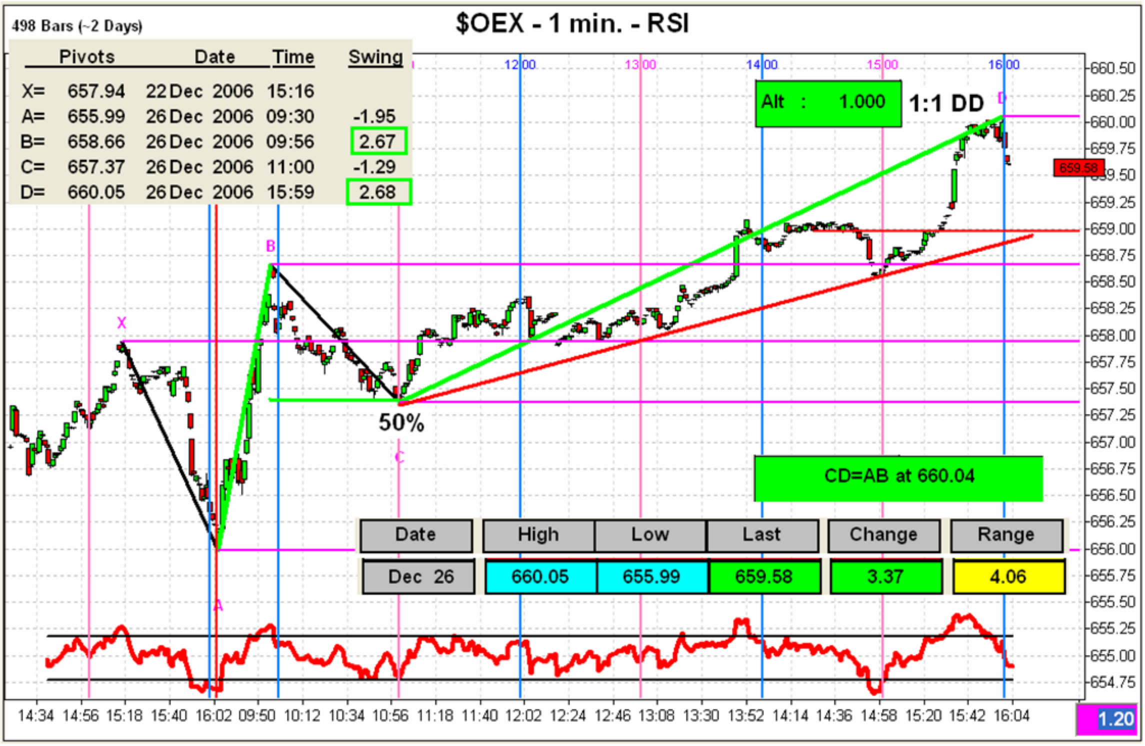
Magnet	AB	CD	CD/AB
Price	8.00	-4.25	0.500
%	0.56	-0.30	0.528
Bars	3	6	2.000
Vib	2.67	-0.71	0.266
Sqr9	CD	-4.25	10

LD = Larger Degree
MD = Medium Degree
SD = Small Degree

smD = Smaller degree

This is how the day unfolded

OEX influence:



Pivots		Date	Time	Swing
X=	657.94	22 Dec 2006	15:16	
A=	655.99	26 Dec 2006	09:30	-1.95
B=	658.66	26 Dec 2006	09:56	2.67
C=	657.37	26 Dec 2006	11:00	-1.29
D=	660.05	26 Dec 2006	15:59	2.68

Date	High	Low	Last	Change	Range
Dec 26	660.05	655.99	659.58	3.37	4.06

Whichever direction the OEX is going will determine the eventual direction of the ES and SPX.

The OEX will trade technically most of the time and obey all the same GEOMETRIC caveats I am presenting to you here. Whilst it does it acts as a confirming factor to any trading decisions you will make.

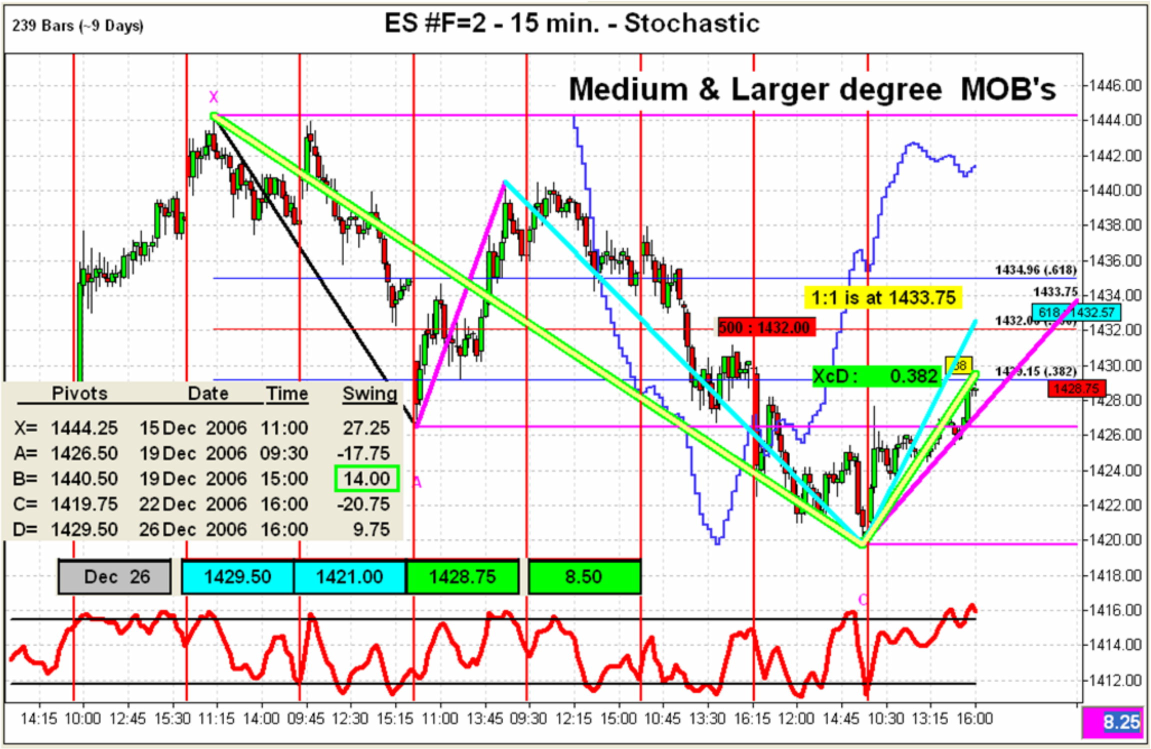
Presently this market is trading COUNTER TREND to the 3 day trend so one should always examine the Medium and Larger degree technical position of the OEX to see what it needs to do to indicate a reversal maybe coming.

The ES has a Larger degree 1:1 resistance above today's high at 1433.75 and the OEX has a similar degree 1:1 resistance at 661.68, if these two levels overbalance then the chances of a new high before the end of the year will look very real.

Nevertheless until these 1:1's come out there is every chance we will head back down again.

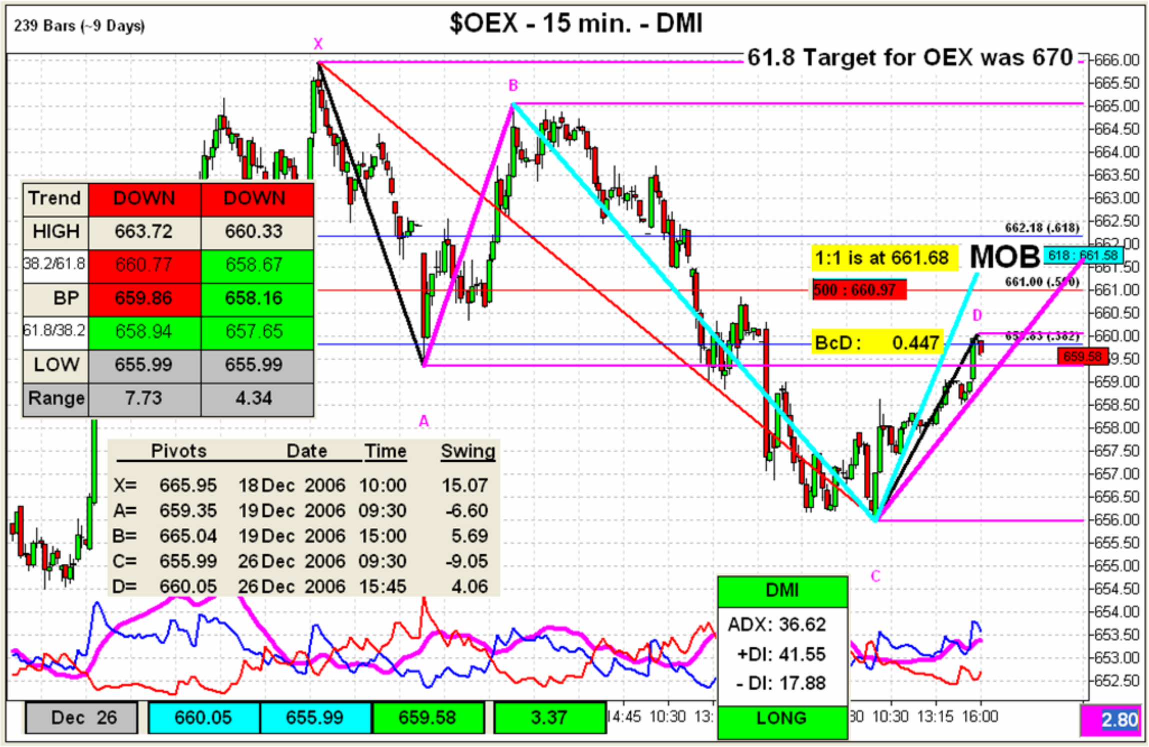
Still my policy is ONE DAY AT A TIME and let the market tell you where it is going. This way all you have to do is trade the set ups when they are obvious to you.

MOB's (Make or Break levels):



	Pivots	Date	Time	Swing
X=	1444.25	15 Dec 2006	11:00	27.25
A=	1426.50	19 Dec 2006	09:30	-17.75
B=	1440.50	19 Dec 2006	15:00	14.00
C=	1419.75	22 Dec 2006	16:00	-20.75
D=	1429.50	26 Dec 2006	16:00	9.75

Dec 26	1429.50	1421.00	1428.75	8.50



Trend	DOWN	DOWN
HIGH	663.72	660.33
38.2/61.8	660.77	658.67
BP	659.86	658.16
61.8/38.2	658.94	657.65
LOW	655.99	655.99
Range	7.73	4.34

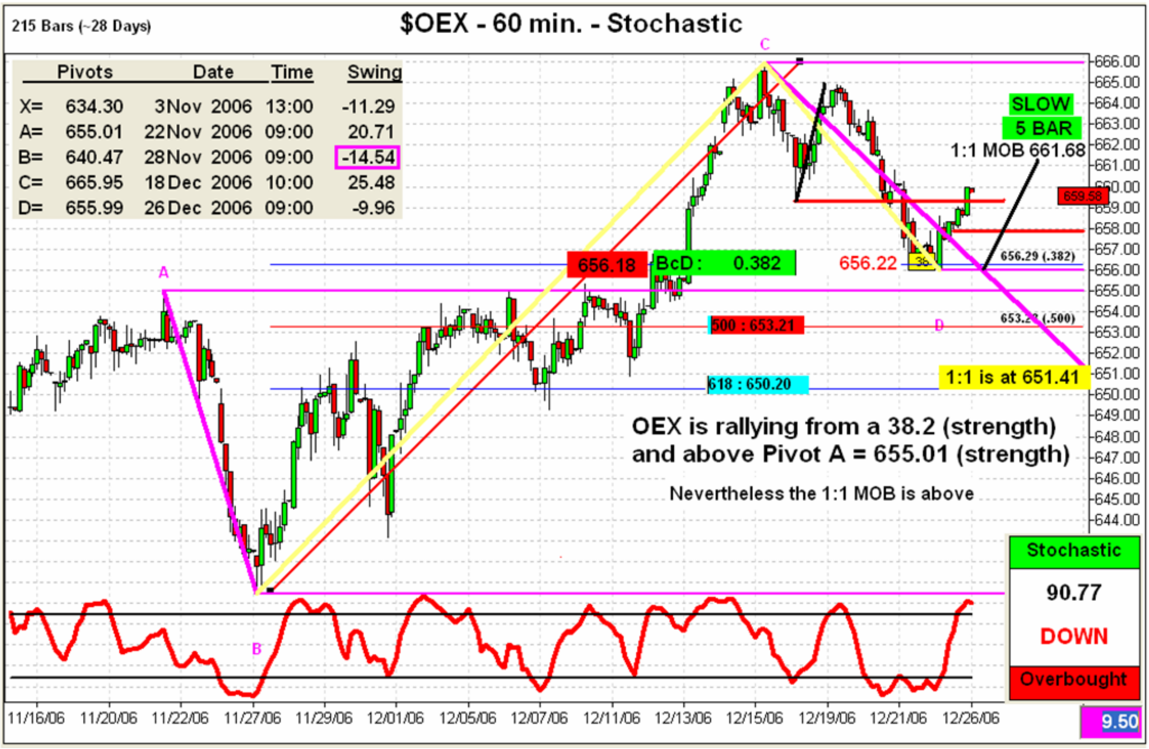
	Pivots	Date	Time	Swing
X=	665.95	18 Dec 2006	10:00	15.07
A=	659.35	19 Dec 2006	09:30	-6.60
B=	665.04	19 Dec 2006	15:00	5.69
C=	655.99	26 Dec 2006	09:30	-9.05
D=	660.05	26 Dec 2006	15:45	4.06

DMI
ADX: 36.62
+DI: 41.55
- DI: 17.88
LONG

Dec 26	660.05	655.99	659.58	3.37

NOTE: The OEX position is stronger as it is above the 38.2 retrace level.

OEX bigger picture right now:



Pivots		Date	Time	Swing
X=	634.30	3Nov 2006	13:00	-11.29
A=	655.01	22Nov 2006	09:00	20.71
B=	640.47	28Nov 2006	09:00	-14.54
C=	665.95	18Dec 2006	10:00	25.48
D=	655.99	26Dec 2006	09:00	-9.96

OEX is rallying from a 38.2 (strength) and above Pivot A = 655.01 (strength)

Nevertheless the 1:1 MOB is above

I'm showing you these charts so you can learn a line of thinking that applies to market analysis.

The OEX is rallying off a larger degree 38.2 retracement. One EW thought is that 38.2 should be the maximum retracement in strong advanced trends, which this has been. The major EW CYCLE DEGREE has a 670 (61.8) target for the OEX and until it reaches it they will not give up unless the GEOMETRY absolutely breaks down.

This current rally has a few obstacles in its way; the main one is the 1:1 up to overbalance the 1st correction from the high. Until the market can break above 661.68 it is still potentially down. Above 661.68 it is potentially up.

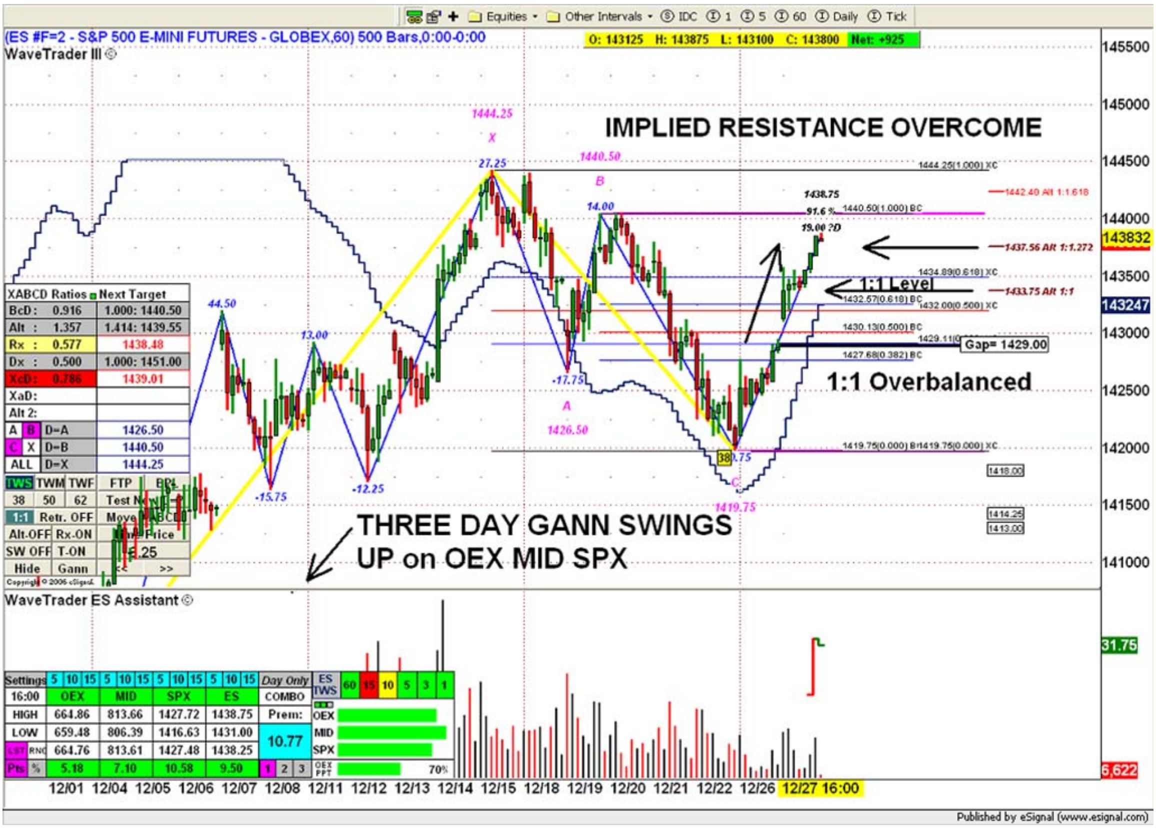
If you learn to apply a logical thought process to all swings (waves) of similar degree and the lesser degree swings (waves) that make up their own geometry along the way the EW theory will guide you very well.

My thinking, which has helped me all these years, is that the smart analysts who understand these things have nothing more or less to work with. So in the long run the approach I am showing you will hold you in good stead.

When it works it is great, when it doesn't it is also telling you what to do next!

NEXT DAY:

We didn’t have to wait long to see the outcome as the ES Globex session made a high of 1435 before the day session opened at 1431.25 and went straight up.



XABCD Ratios	Next Target
BcD : 0.916	1.000: 1440.50
Alt : 1.357	1.414: 1439.55
Rx : 0.577	1438.48
Dx : 0.500	1.000: 1451.00
XcD: 0.786	1439.01
XaD:	
Alt 2:	
A B D=A	1426.50
C X D=B	1440.50
ALL D=X	1444.25

Settings	5 10 15	5 10 15	5 10 15	5 10 15	Day Only
16:00	OEX	MID	SPX	ES	COMBO
HIGH	664.86	813.66	1427.72	1438.75	Prem:
LOW	659.48	806.39	1416.63	1431.00	10.77
LST RND	664.76	813.61	1427.48	1438.25	
Pts %	5.18	7.10	10.58	9.50	1 2 3

The OEX jumped straight out of the blocks when Wall Street opened at 9:30am and was through its 1:1 and 61.8 before you could whistle Dixie.

The OEX also finished at 664.42 with a high of 664.86 cementing the gains for the day. All the Gann 2 and 3 day swings for OEX, MID, SPX and ES are now up. The only possible negative is that this explosive rally has only been going for 2 days. Nevertheless we have 2 more trading days left in the week for window dressing Q4 performances. Q4 results are extremely important to fund managers and the bonus system most of them work under so it is hard to imagine they will let the market fall over the next couple of days. In fact you could bank on it.

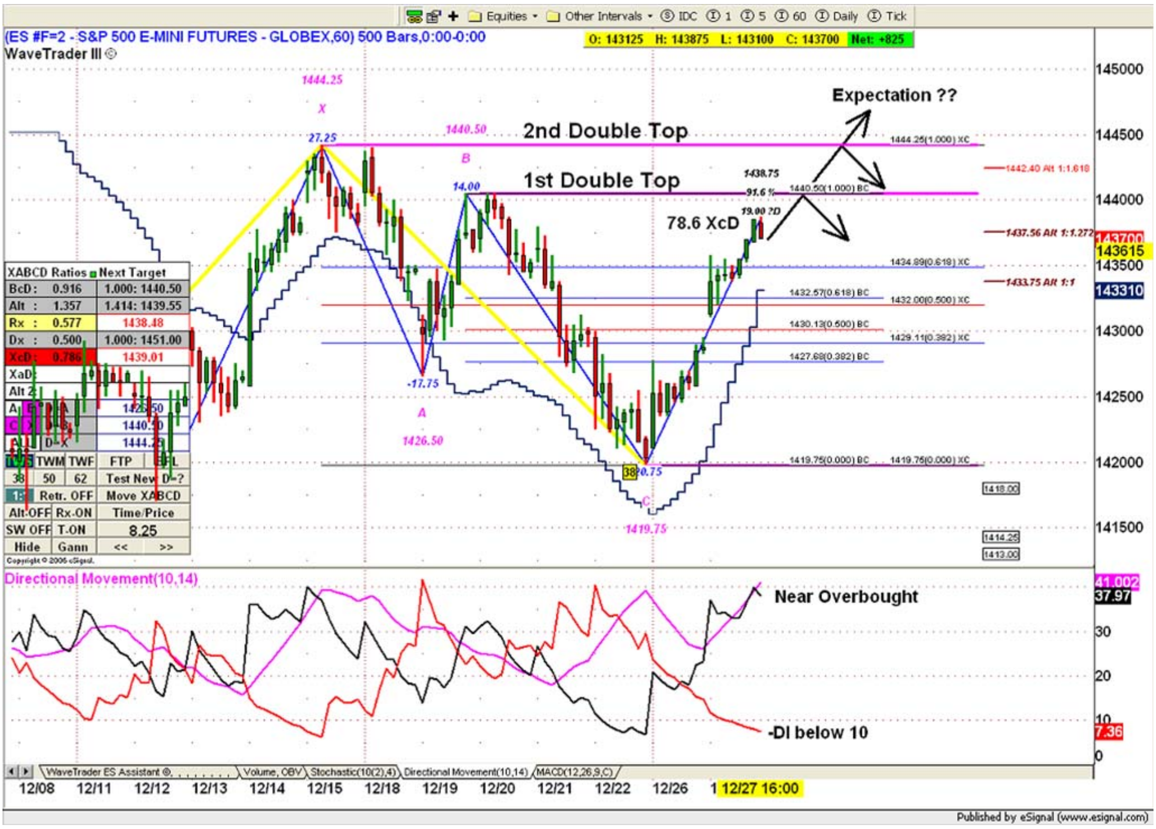
The past couple of years the market has rallied into the end of Q4 and then dropped heavily in early January. The question I am asking myself is can they rally the OEX up to 670 in the next two days and hold it there.

In January we will get a new round of Q4 profit reporting and forecast earnings projections for Q1 2007; these could be interesting.

Chapter 25

Double Top Breakouts or Reversal Trades:

Now would be a good time to start on this chapter as we have the market approaching two significant market highs.



The 1st DT is at 1440.50 and the 2nd DT (the highest) is at 1444.25, The 2nd DT resistance was actually higher in the Globex session at 1445 so we need to be mindful of that.

At first glimpse the market is approaching the 1st DT (only 3 points short of it) in an extremely OVERBOUGHT state after 2 days straight up.

Potentially there are 3 trading opportunities that could arise where a tight stop loss can be applied.

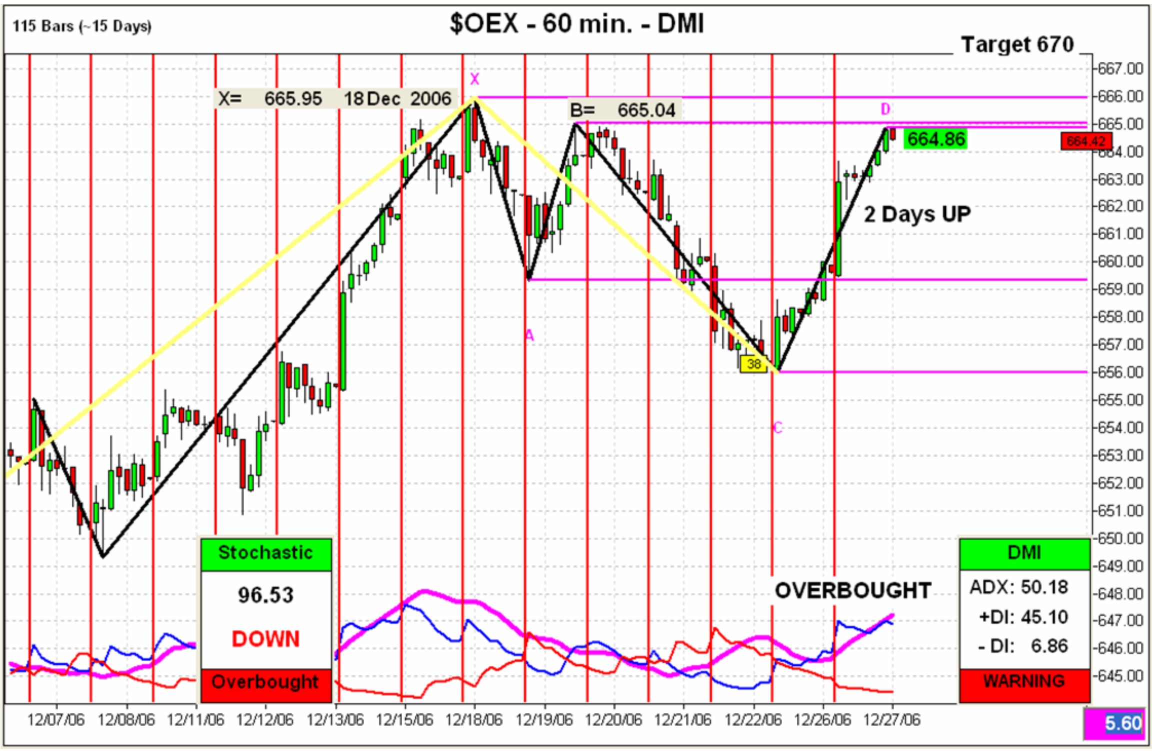
1. Sell the DT at 1440.25
2. Buy the breakout at 1441
3. If it breaks out and falls back below 1440 then Sell 1439.50

Now if we have a look at the conditions that exist we can make a case for all three trade opportunities beginning with case 1.

The overbought condition is a good reason to expect sellers to hit the market hard at a test of 1440.50 if it gets there. Nevertheless it is possible for the market to remain overbought for days on end before a significant correction.

What would be unusual though is for the market to go vertical for more than 2 days in a row and make it three Type 1 days in a row.

CHECK the OEX position:



Now the OEX is in a similar position as the ES is. The question with it is the 670 target (a major degree 61.8 retracement of all the declines in the great bear market of 2000-2002).

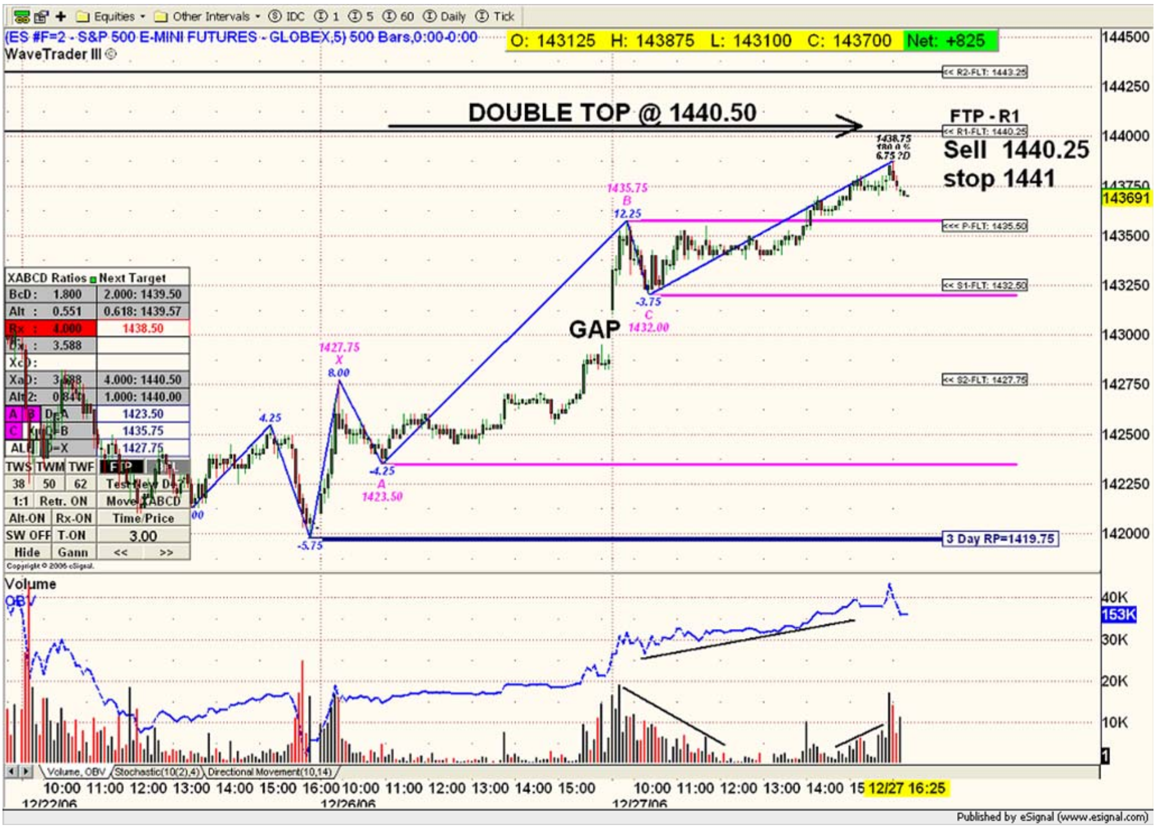
On the basis that the market is overbought alone we could look at taking the SELL at 1440.25 and place a stop loss at 1441. There is very little risk in the opportunity.

Two things could get in the way; 1st is the Globex ES may trade higher in the night session and the trade opportunity becomes redundant before the day session opens. The cash market opens and the OEX breaks through its 665.04 high before the ES trades higher, if this were to happen I would pull the order.

Case 2: Buy a breakout at 1441. This I would pass on with the next high only 3 points away.

Case 3: Sell a break back at 1439.50 if the ES trades above 1441 and then falls back; this I would trade I would take if the OEX did a similar thing.

The break back sell would be initiated and then you just place a 6 tick stop on the trade.



NOW IF THE ES TRADES TO 1444.25 HIGH:

At this point without knowing what is going to happen I would SELL it at 1444 with a Stop and Reverse BUY order at 1445 – If it does sell off there I wouldn't expect it to drop much – maybe back to 1440 is about all I would expect.

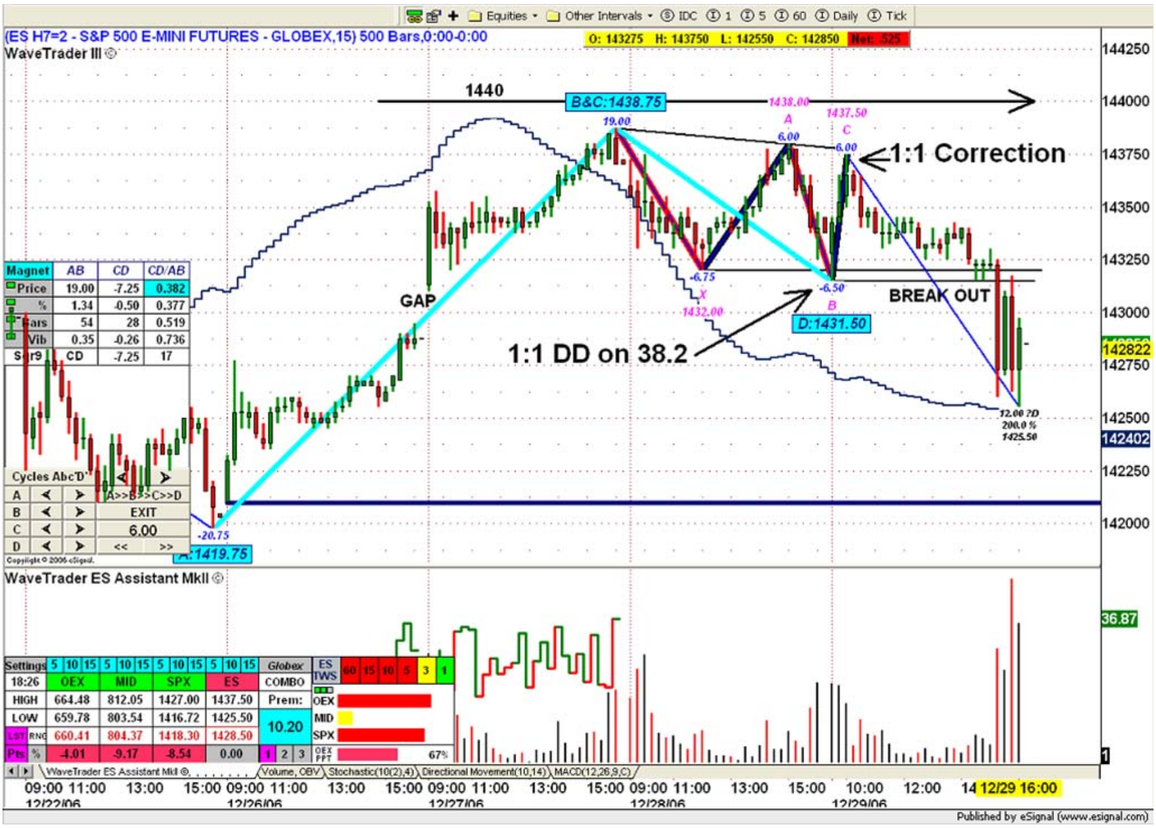
What we don't know at this time is how much volume will come into the market at either point or even if we will get to either point; nevertheless we need to have a plan.

Once the day trading session opens I will be watching the OEX & ES very closely in 1 minute and 5 minute intervals.

Irrespective of what happens in the market there a few things that you need to take note of:-

1. You need to prepare each day and look for the obvious things that will motivate traders to act.
2. In Gann's words just remember, "There is no price to high to buy and no price to low to sell".
3. Always be prepared for the unexpected.
4. The OEX leads the S&P500.

Thursday 28th & Friday 29th December 2006: No cigars on the double tops:



Magnet	AB	CD	CD/AB
Price	19.00	-7.25	0.382
%	1.34	-0.50	0.377
Bars	54	28	0.519
Vib	0.35	-0.26	0.736
Sqr9	CD	-7.25	17

Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
18:26	OEX	MID	SPX	ES	COMBO
HIGH	664.48	812.05	1427.00	1437.50	Prem:
LOW	659.78	803.54	1416.72	1425.50	10.20
LST RNG	660.41	804.37	1418.30	1428.50	
Pts %	-4.01	-9.17	-8.54	0.00	1 2 3

The reason for the ES not testing the double top was simple as the OEX had made a double top and sold off from the beginning of the day.

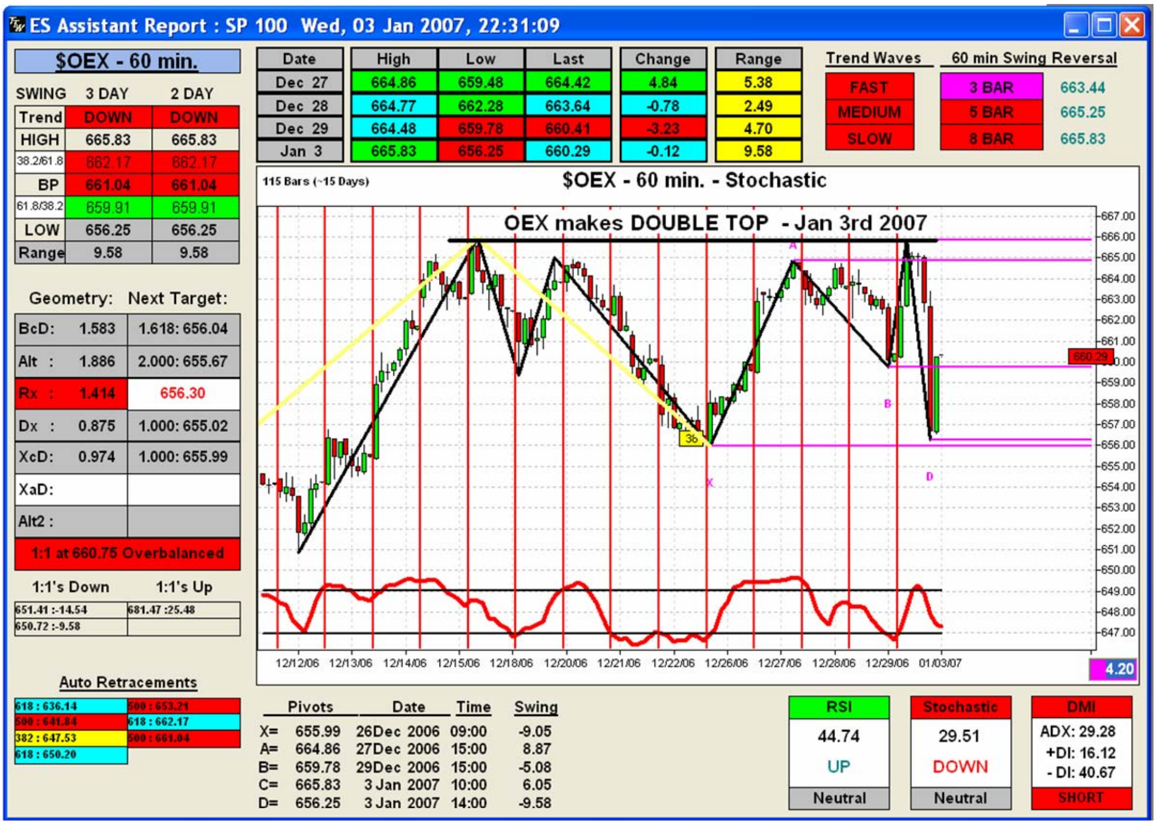
Nevertheless there were several other technical reversals, I have been discussing previously, that were available trading opportunities.

Monday is New Years day and Tuesday Wall Street will be closed all day in respect for ex president Gerald Ford's passing away.

Wednesday, January 3rd, 2007. CIGAR DAY:

Wednesday in the Globex session the ES had traded to 1439.50 but the day session opened at 1432.75 with a GAP from Friday's close of 1429.25, it didn't take them long to rally the ES up to 1440 as the OEX began the New Year on a positive note.

Fundamentally the rally was not making any sense and the OEX was heading into a double top with the 2006 high with the ES at 1440. A sell signal if you ever saw one.



ES Assistant Report : SP 100 Wed, 03 Jan 2007, 22:31:09

$OEX - 60 min.

SWING	3 DAY	2 DAY
Trend	DOWN	DOWN
HIGH	665.83	665.83
38.2/61.8	662.17	662.17
BP	661.04	661.04
61.8/38.2	659.91	659.91
LOW	656.25	656.25
Range	9.58	9.58

Date	High	Low	Last	Change	Range
Dec 27	664.86	659.48	664.42	4.84	5.38
Dec 28	664.77	662.28	663.64	-0.78	2.49
Dec 29	664.48	659.78	660.41	-3.23	4.70
Jan 3	665.83	656.25	660.29	-0.12	9.58

Trend Waves	60 min Swing Reversal	
FAST	3 BAR	663.44
MEDIUM	5 BAR	665.25
SLOW	8 BAR	665.83

Geometry:		Next Target:
BcD:	1.583	1.618: 656.04
Alt :	1.886	2.000: 655.67
Rx :	1.414	656.30
Dx :	0.875	1.000: 655.02
XcD:	0.974	1.000: 655.99
XaD:		
Alt2 :		

1:1 at 660.75 Overbalanced

1:1's Down	1:1's Up
651.41 :-14.54	681.47 :25.48
650.72 :-9.58	

Auto Retracements

618 : 636.14	500 : 653.21
500 : 641.84	618 : 662.17
382 : 647.53	500 : 661.04
618 : 650.20	

Pivots		Date	Time	Swing
X=	655.99	26Dec 2006	09:00	-9.05
A=	664.86	27Dec 2006	15:00	8.87
B=	659.78	29Dec 2006	15:00	-5.08
C=	665.83	3 Jan 2007	10:00	6.05
D=	656.25	3 Jan 2007	14:00	-9.58

RSI	Stochastic	DMI
44.74	29.51	ADX: 29.28
UP	DOWN	+DI: 16.12
		- DI: 40.67
Neutral	Neutral	SHORT

115 Bars (~15 Days)
$OEX - 60 min. - Stochastic
OEX makes DOUBLE TOP - Jan 3rd 2007
A
B
X
D
3b
660.29
667.00
666.00
665.00
664.00
663.00
662.00
661.00
659.00
658.00
657.00
656.00
655.00
654.00
653.00
652.00
651.00
650.00
649.00
648.00
647.00
12/12/06
12/13/06
12/14/06
12/15/06
12/18/06
12/20/06
12/21/06
12/22/06
12/26/06
12/27/06
12/28/06
12/29/06
01/03/07
4.20

The turnaround took some time to take hold but it gave a variety of technical opportunities to get short close to the top with little to no risk attached. The clincher was when the OEX broke back below the 3 day high where it had made the previous lower double top.

Whilst all of this was unraveling I was explaining to the guys in the WTL HotComm room how to deal with it.

The ES 1440 high came in on the 10:26am bar.
The OEX high tick came in exactly on the same bar.

SOME TRANSCRIPTS from our WTL Hot Comm room:

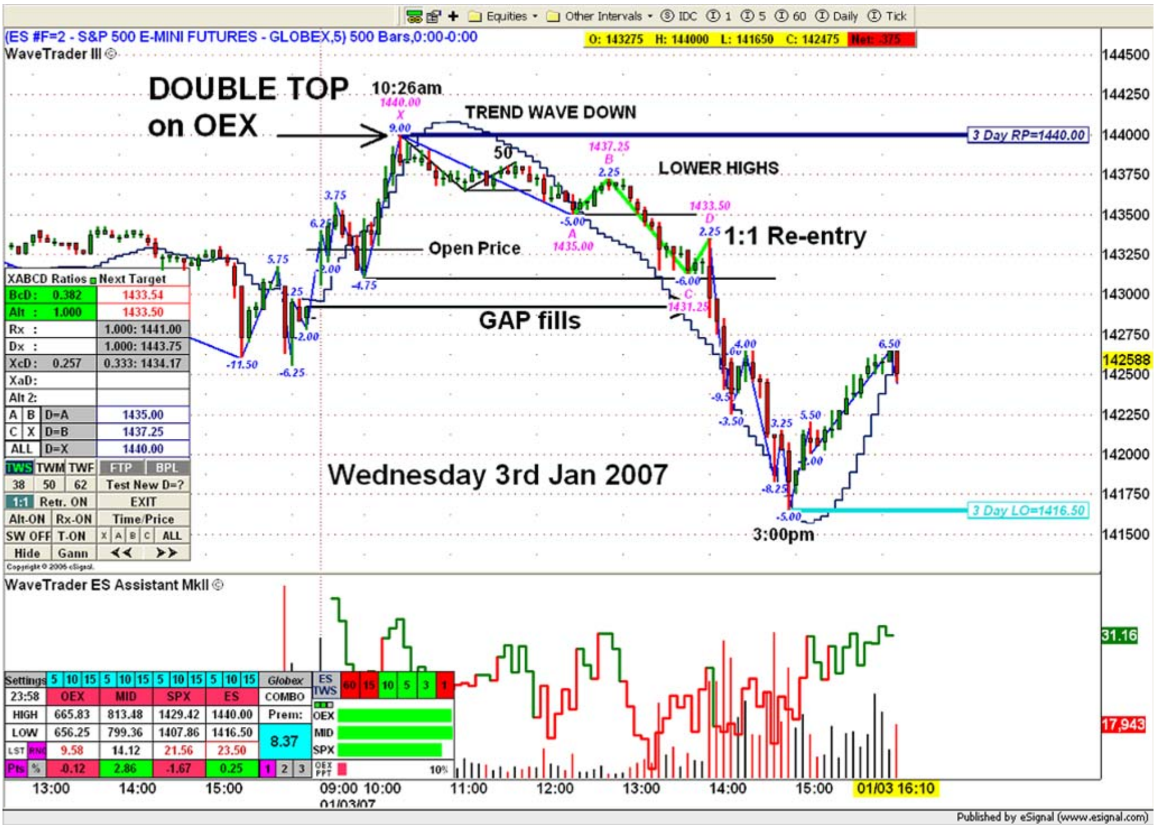
At the Double Top:

10:18:17 {BBG} Well a double top here is going to tell us something
10:20:56 {BBG} Everything is still below resistance
10:23:14 {BBG} The thing is it needs to stumble at a double top of something and wear them down before you can reliably sell it.
10:24:45 {Nathan_W} going for the 670
10:24:46 {Nathan_W} ?
10:25:05 {BBG} Well it is trying
10:26:02 {BBG} I wouldn't buy it to go there myself but I wouldn't sell it until I get some confirmation either
10:27:04 {BBG**} I reckon it's at a high nearly on the OEX** - it just depends on what they do now
10:28:24 {BBG} If OEX breaks back through 664.75 that could be a trigger
10:30:19 {BBG} Lots of sellers in this zone
10:30:54 {BBG} all depends on who's going to win
10:33:08 {BBG} **See the gap is the down target**
10:38:22 {BBG**} Well, the set up is a breakback if you want to try it**
10:40:54 {BBG} These guys that are buying must have some reason I don't know of.
10:49:01 {BBG} they are fucked that's where they are
10:50:12 {enzo} bryce if I understand the oex needs to break below 664.75 ??
10:50:39 {BBG} would help to confirm my view right now Enzo
10:50:52 {enzo} yeas of course that is what I meant to say
10:56:46 {BBG} This may not make much sense to you but there is a lot of insiders selling into this market and it will have a lot of trouble going up.
10:57:20 {BBG} **The easiest course is for it to go down now**
10:58:28 {BBG} **You either are on it or you are not that is what trading is all about**

When the ES makes the +2.25 1:1 at 2:00pm

13:38:01 {Richard_To} FOMC minute at 14:00
13:38:21 {enzo} thanks richard
13:38:27 {BBG} Maybe this will get it threw the 61.8
13:38:57 {BBG} It has to break threw
13:39:18 {BBG} It does not have any option
13:44:04 {BBG} OEX just needs to take out this 50
13:49:41 {BBG} OEX 50 is gone
13:50:58 {BBG} All those fucking wankers who bought this market this morning are bleeding out of their ass right now
13:56:50 {BBG} What will happen now who knows but everything so far has been reasonably easy since the double tops
14:00:11 {BBG} Just something I have up my sleeve
14:01:29 {BBG**} MOB now** (this is where the 1:1 2.25 came in)
14:02:53 {BBG} I suppose it is an each way bet to back it down from here but what is the risk?
14:03:13 {BBG} 3 ticks?
14:03:46 {phankin} boof, there she goes
14:04:07 {BBG} **well I rest my case**
14:04:17 {phankin} 3pts in 3 secs
14:04:39 {BBG} not bad for an idiot was it

ES Day session: Wednesday 3rd, January 2007.



XABCD Ratios		Next Target
BcD:	0.382	1433.54
Alt :	1.000	1433.50
Rx :		1.000: 1441.00
Dx :		1.000: 1443.75
XcD:	0.257	0.333: 1434.17
XaD:		
Alt 2:		
A B	D=A	1435.00
C X	D=B	1437.25
ALL	D=X	1440.00

Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
23:58	OEX	MID	SPX	ES	COMBO
HIGH	665.83	813.48	1429.42	1440.00	Prem:
LOW	656.25	799.36	1407.86	1416.50	8.37
LST RNG	9.58	14.12	21.56	23.50	
Pts %	-0.12	2.86	-1.67	0.25	1 2 3

As I have often said, always be prepared for the unexpected.

The market will always tell you where it is going. The first move down from the high was retraced to 50 of the drop giving another opportunity to enter short.

The next correction was 2.25 up and was followed by a break which took the ES back across the opening print, the TWS trend wave had turned down on the first drop from the double top. Everything was in place for a continuation.

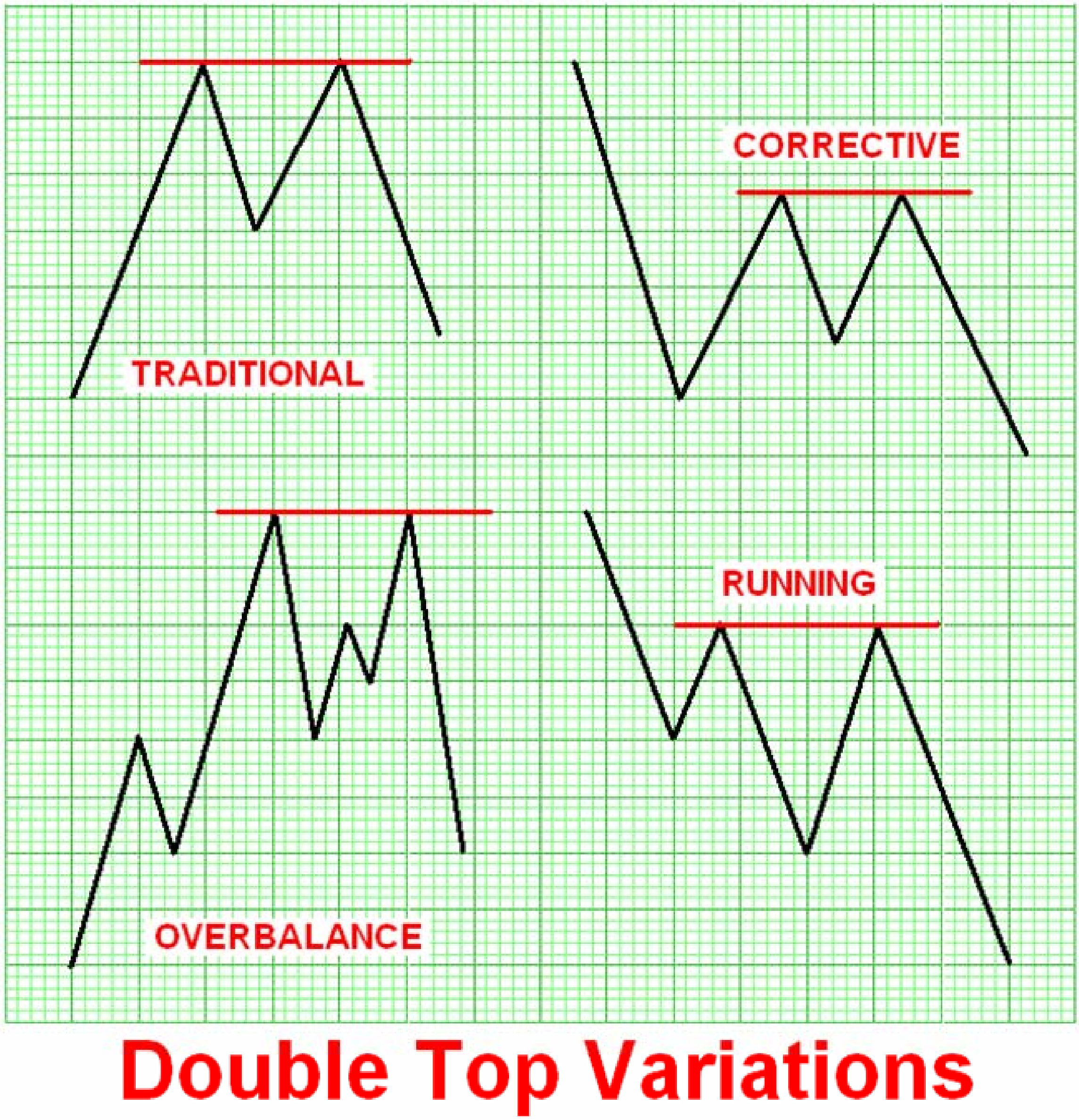
Just prior to the 2:00pm FOMC minutes release the selling pressure came off and the ES corrected back 2.25 making a 1:1 (another re-entry opportunity).

The following decline filled the GAP and kept on going. There was another correction of 4.50 points before the next sharp decline.

The days low came in on cue at 3:00pm where the program traders normally band together if there is a sharp move into that time zone.

The rest is history now.

Double Top Variations:


CORRECTIVE
TRADITIONAL
RUNNING
OVERBALANCE
Double Top Variations

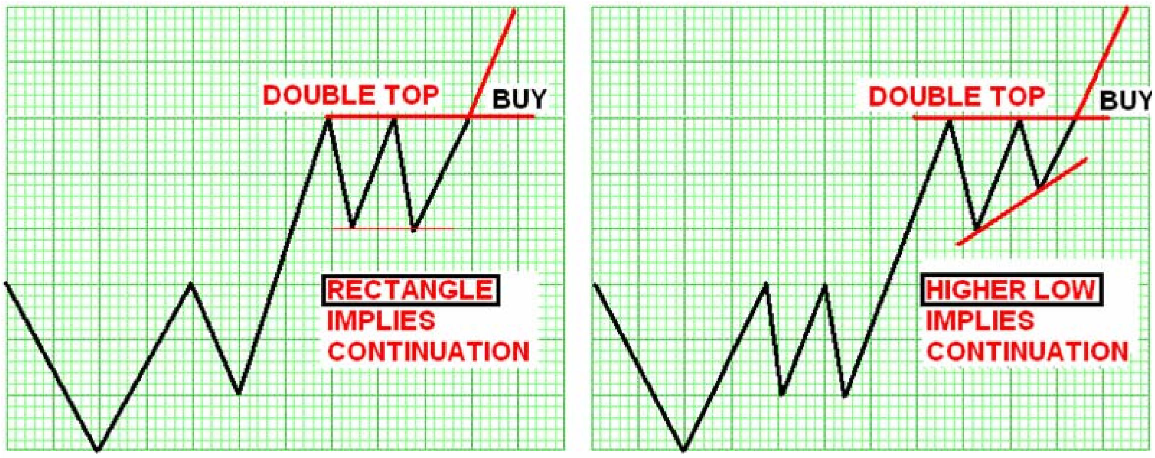
TRADITIONAL DT's have a greater potential to break out to the upside.

CORRECTIVE DT's if they are on a 50 or 61.8 retracement level more potential to reverse back down.

OVERBALANCING DT's where the correction prior to the DT is greater than the preceding correction has more potential to reverse back down, they could even break out slightly for a false break and then reverse back down.

RUNNING DT's will normally go to a new low if there is a reversal at them. especially when they tie in with a 50 or 61.8 retracement of XcD.

Double Top Breakout Patterns:



DOUBLE TOP - BREAKOUT PATTERNS

Rectangles:

Rectangles imply a continuation in an upward trend. If the double top forms over 2 or more days the breakout should produce a good profit making trade as there will have been ample time for any short traders to move their stops into position above the double top.

Rising Wedge:

A rising wedge will imply a continuation on the break of the double top, sometimes the breakout may not go straight up as it may suffer from some resistance nevertheless the pattern is reliable more times than it is not. Again the longer period of time between the double tops the more explosive the breakout should be.

Before the breakout:

You should watch the volume prior to any breakout as it should be rising in favor of the buyers. If the volume is low the breakout could end up being sloppy. If you are using these patterns intraday on a 5 minute chart you must watch the volume and the Trend Wave for extra confirmation as many breakouts to the upside on intraday patterns suffer from overlaps even when the trend continues up.

Double tops in the price action are very common yet many of them are short lived experiences.

GAP OPENINGS above what could have been a DOUBLE TOP:

Anytime you have a potential double top close to forming as a formidable resistance level and the new day's price GAPS above it – just BUY as 98% of the time the opening price will be the low for the day.

Usually before the open there will have been a report released that encourages buyers to act. Be guided by the report and the buying frenzy. Believe what you see and not what you think.

To be honest believing what you see is your best guide. Having an opinion that is out of date is your worst enemy in the trading business. I have come to believe that by taking each day ONE DAY AT A TIME you cannot get out of step for very long.

There have been times I have witnessed when the market was in a position where it was hard to imagine it going up and then it went up for 6 months relentlessly. Always believe that the price action is righter than you will ever be with an opinion. This is why forecasters never make good traders as they always want to believe their forecast will come true, it rarely does as conditions are always changing. Even when forecasts do work out there is no way of knowing how many swings up and down the market will go through before the forecast actually pans out to be true.

Always trade what you see as that will be the market mood at the time; believe it or not!

It's always hard to tell people what to do when they start off trading as there can be so many variables. Nevertheless there are 4 things I can tell you that you should not forget to do each day before the market opens.

1. Check your charts for all possible near at hand levels of SUPPORT & RESISTANCE.
2. Assess what a break of any of these levels will translate to the players who are regulars in the market.
3. Listen to the news, watch the reports as they are released, watch the market commentators and the interviews that take place daily.
4. Keep an eye on the progressive earnings reports as they are released at the end of each quarter.

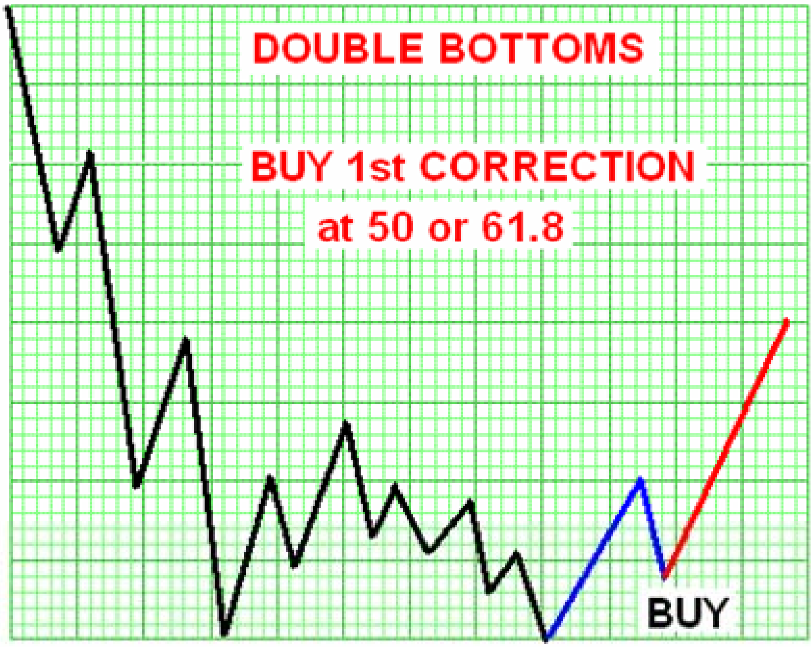
Once the market starts trading it will either make sense or it won't – if it does not make any sense it is better to sit on the fence. When it all makes sense the trading side becomes easy. It takes a while for everyone to understand that just guessing is not the best way to approach trading!

Chapter 26

Double Bottom Breakout or Reversal Trades:

To start with I should tell you I have never been attracted to buying double bottoms other than intraday when I am sure the trend is in an upward mode.

Personally I prefer the market to demonstrate there are genuine buyers present rather than just sellers covering positions.

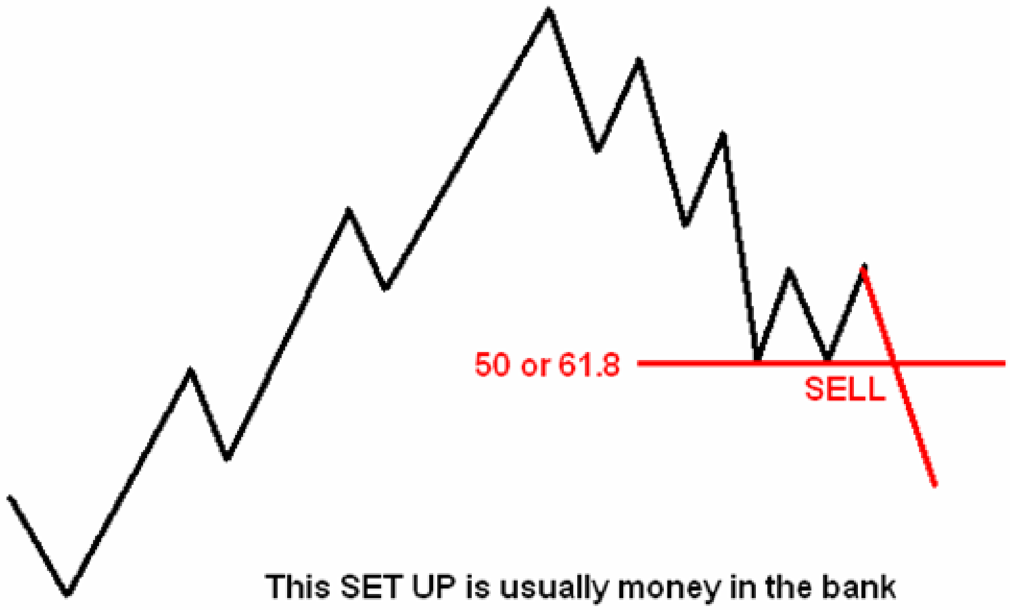


Usually if the market has reversed at a double bottom you will get an opportunity to enter long on the 1st correction and by that time the new move upwards would have some credence to be believable.

The easiest thing I have found to do in life is to sell double bottom breakouts.

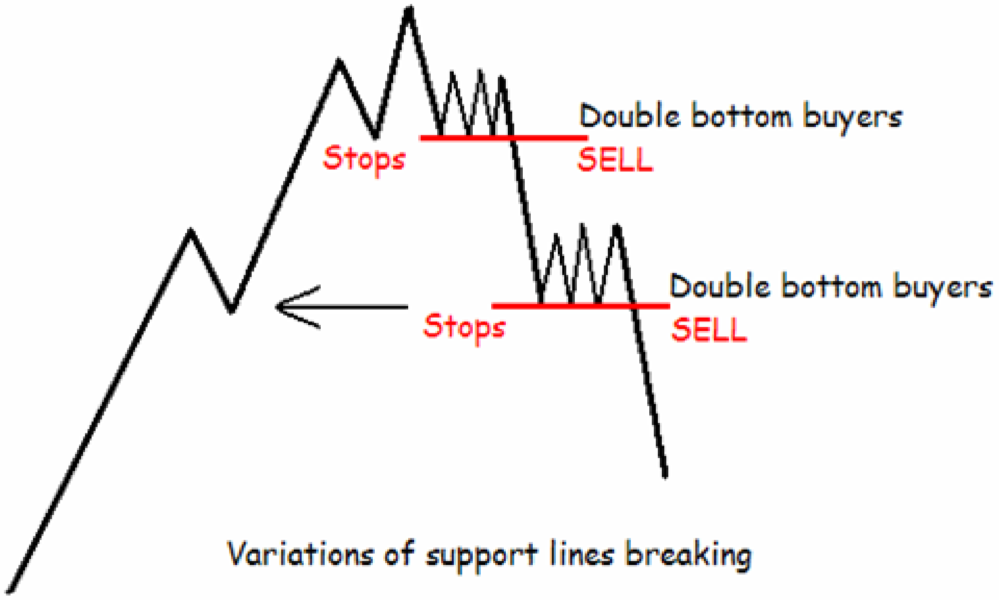
Double bottom breakouts have a huge following amongst savvy traders as they are places where the establishment investors get forced to the wall, at least temporally.

There's nothing on earth more satisfying than when you take a short trade and it breaks levels that buyers hold as a safety net. Markets seem to move harder initially when they break down and have the existing long positions going under. Mainly because there are going to be lesser buyers with resident orders to buy at lower levels than there are sellers.


50 or 61.8
SELL

This SET UP is usually money in the bank

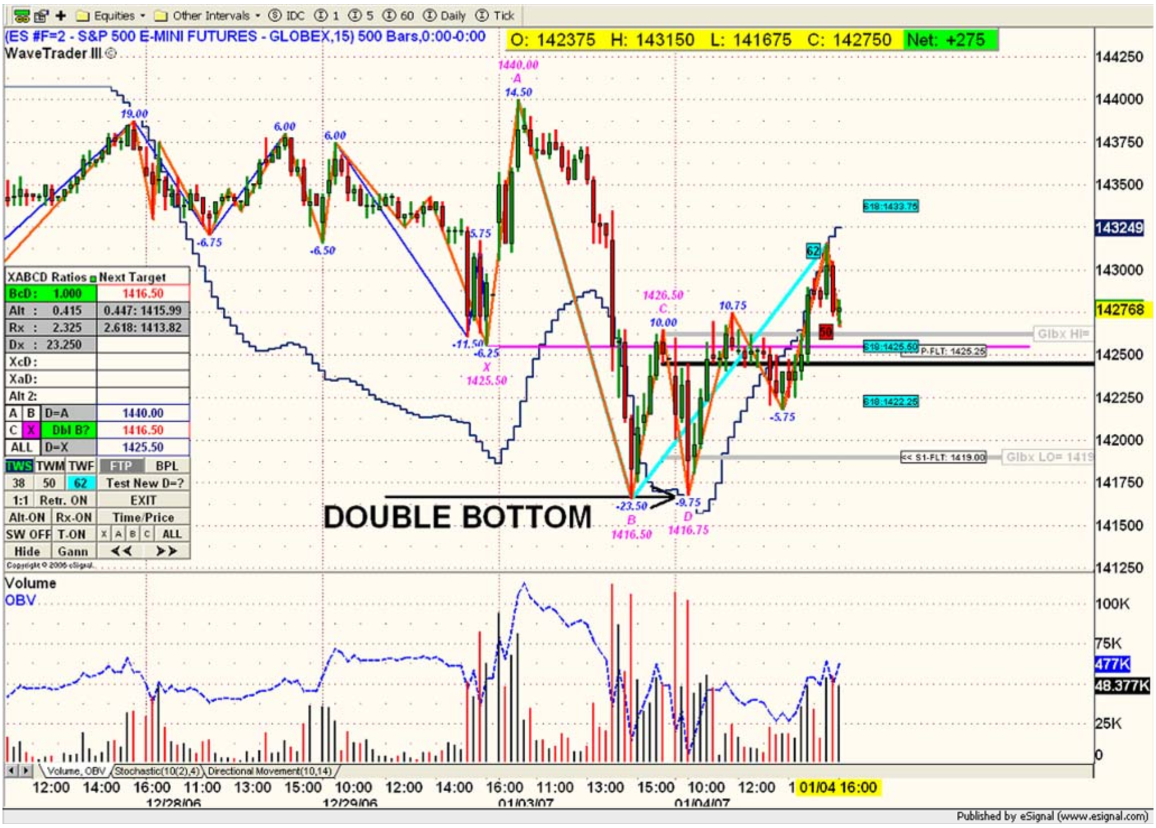
Pivot Support Breaks


Double bottom buyers
Stops
SELL
Double bottom buyers
Stops
SELL

Variations of support lines breaking

Thursday 4th January, 2007:

Business today as usual after yesterday’s shakeout.



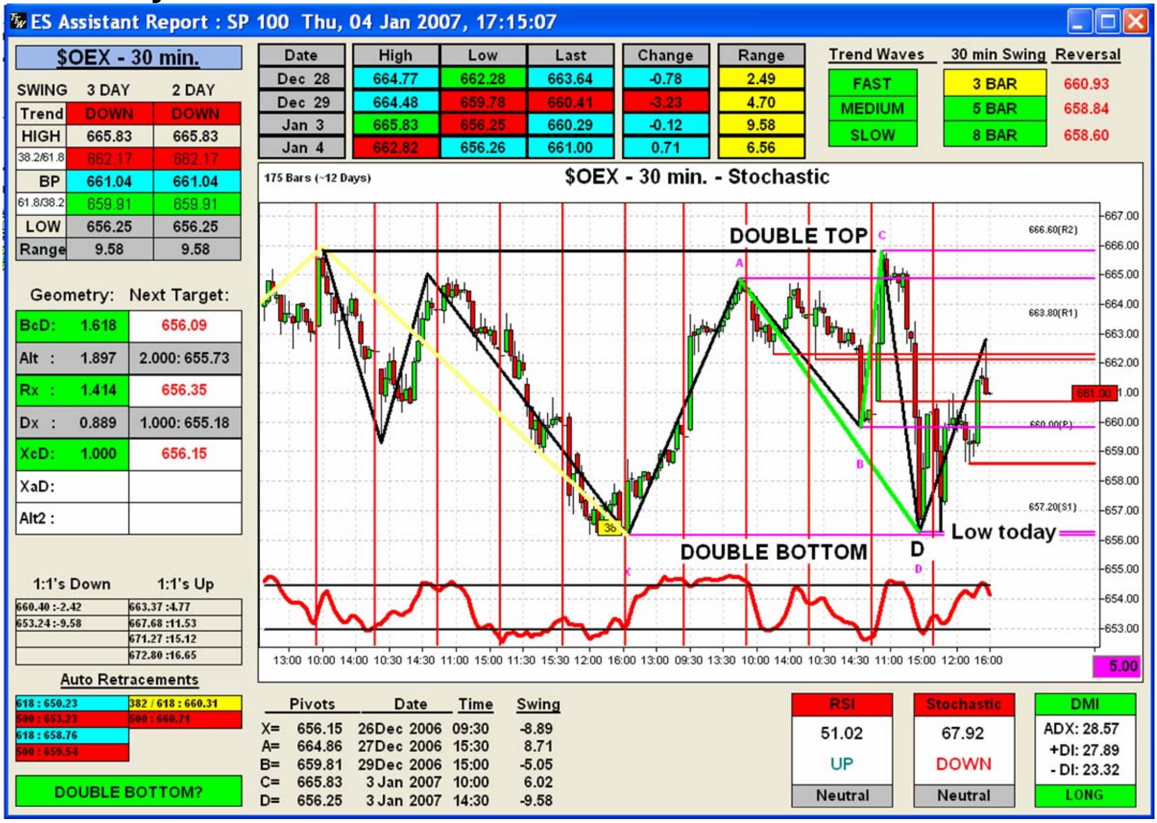
The market opened today and traded down to test the low from yesterday. The point you need to note about this double bottom is the SUPPORT level that traders could recognize after they had a chance to investigate why the market reversed there.

It wasn’t that difficult to realize that this level was a Larger degree SUPPORT level when you examined the OEX and the SPX charts for yesterday.

SPX had reversed on a larger degree 1:1 DD and the OEX on a Double Bottom. The OEX was still contained within a rectangle pattern and had not broken down. In fact the OEX has shown some resilience to breaking down even with the SPX, MID and futures activity.

The OEX charts and the SPX charts are self explanatory if you study them closely, both had solid support to encourage buying above the lows. Notwithstanding if yesterdays lows had come out then selling would have been the order of the day.
The two charts are on the following page.

OEX today:


ES Assistant Report : SP 100 Thu, 04 Jan 2007, 17:15:07

$OEX - 30 min.

SWING	3 DAY	2 DAY
Trend	DOWN	DOWN
HIGH	665.83	665.83
38.2/61.8	662.17	662.17
BP	661.04	661.04
61.8/38.2	659.91	659.91
LOW	656.25	656.25
Range	9.58	9.58

Date	High	Low	Last	Change	Range
Dec 28	664.77	662.28	663.64	-0.78	2.49
Dec 29	664.48	659.78	660.41	-3.23	4.70
Jan 3	665.83	656.25	660.29	-0.12	9.58
Jan 4	662.82	656.26	661.00	0.71	6.56

Trend Waves	30 min Swing	Reversal
FAST	3 BAR	660.93
MEDIUM	5 BAR	658.84
SLOW	8 BAR	658.60

Geometry:		Next Target:
BcD:	1.618	656.09
Alt :	1.897	2.000: 655.73
Rx :	1.414	656.35
Dx :	0.889	1.000: 655.18
XcD:	1.000	656.15
XaD:		
Alt2 :		

1:1's Down	1:1's Up
660.40 :-2.42	663.37 :4.77
653.24 :-9.58	667.68 :11.53
	671.27 :15.12
	672.80 :16.65

Auto Retracements

618 : 650.23	382 / 618 : 660.31
500 : 653.23	500 : 660.71
618 : 658.76	
500 : 659.54	

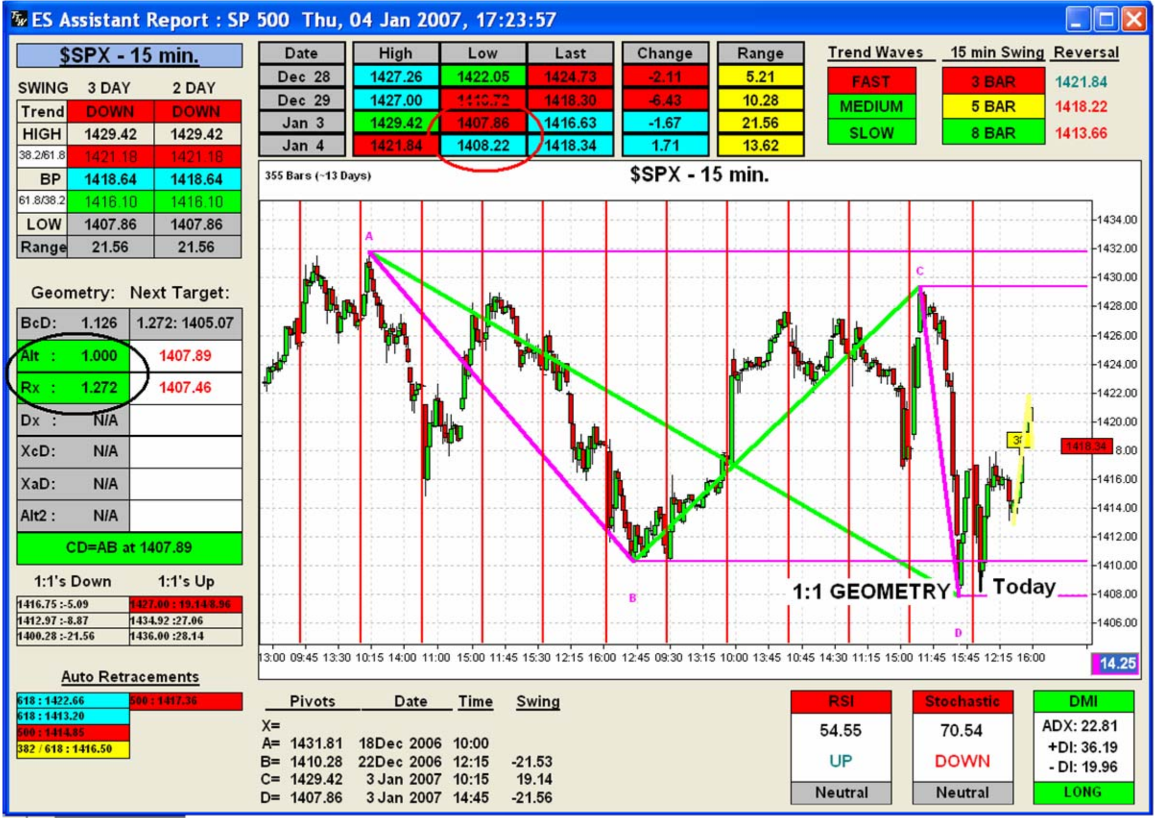
DOUBLE BOTTOM?

Pivots		Date	Time	Swing
X=	656.15	26Dec 2006	09:30	-8.89
A=	664.86	27Dec 2006	15:30	8.71
B=	659.81	29Dec 2006	15:00	-5.05
C=	665.83	3 Jan 2007	10:00	6.02
D=	656.25	3 Jan 2007	14:30	-9.58

RSI	Stochastic	DMI
51.02	67.92	ADX: 28.57
UP	DOWN	+DI: 27.89 - DI: 23.32
Neutral	Neutral	LONG

175 Bars (~12 Days)
$OEX - 30 min. - Stochastic
DOUBLE TOP
DOUBLE BOTTOM
Low today
D
A
B
C
666.60(R2)
663.80(R1)
660.00(P)
657.20(S1)
661.00
667.00
666.00
665.00
664.00
663.00
662.00
660.00
659.00
658.00
657.00
656.00
655.00
654.00
653.00
13:00 10:00 14:00 10:30 14:30 11:00 15:00 11:30 15:30 12:00 16:00 13:00 09:30 13:30 10:00 14:00 10:30 14:30 11:00 15:00 12:00 16:00
5.00

SPX today:


ES Assistant Report : SP 500 Thu, 04 Jan 2007, 17:23:57

$SPX - 15 min.

SWING	3 DAY	2 DAY
Trend	DOWN	DOWN
HIGH	1429.42	1429.42
38.2/61.8	1421.18	1421.18
BP	1418.64	1418.64
61.8/38.2	1416.10	1416.10
LOW	1407.86	1407.86
Range	21.56	21.56

Date	High	Low	Last	Change	Range
Dec 28	1427.26	1422.05	1424.73	-2.11	5.21
Dec 29	1427.00	[illegible]	1418.30	-6.43	10.28
Jan 3	1429.42	1407.86	1416.63	-1.67	21.56
Jan 4	1421.84	1408.22	1418.34	1.71	13.62

Trend Waves	15 min Swing	Reversal
FAST	3 BAR	1421.84
MEDIUM	5 BAR	1418.22
SLOW	8 BAR	1413.66

Geometry:		Next Target:
BcD:	1.126	1.272: 1405.07
Alt :	1.000	1407.89
Rx :	1.272	1407.46
Dx :	N/A	
XcD:	N/A	
XaD:	N/A	
Alt2 :	N/A	

CD=AB at 1407.89

1:1's Down	1:1's Up
1416.75 :-5.09	1427.00 : 19.14 8.96
1412.97 :-8.87	1434.92 :27.06
1400.28 :-21.56	1436.00 :28.14

Auto Retracements

618 : 1422.66	500 : 1417.36
618 : 1413.20	
500 : 1414.85	
382 / 618 : 1416.50	

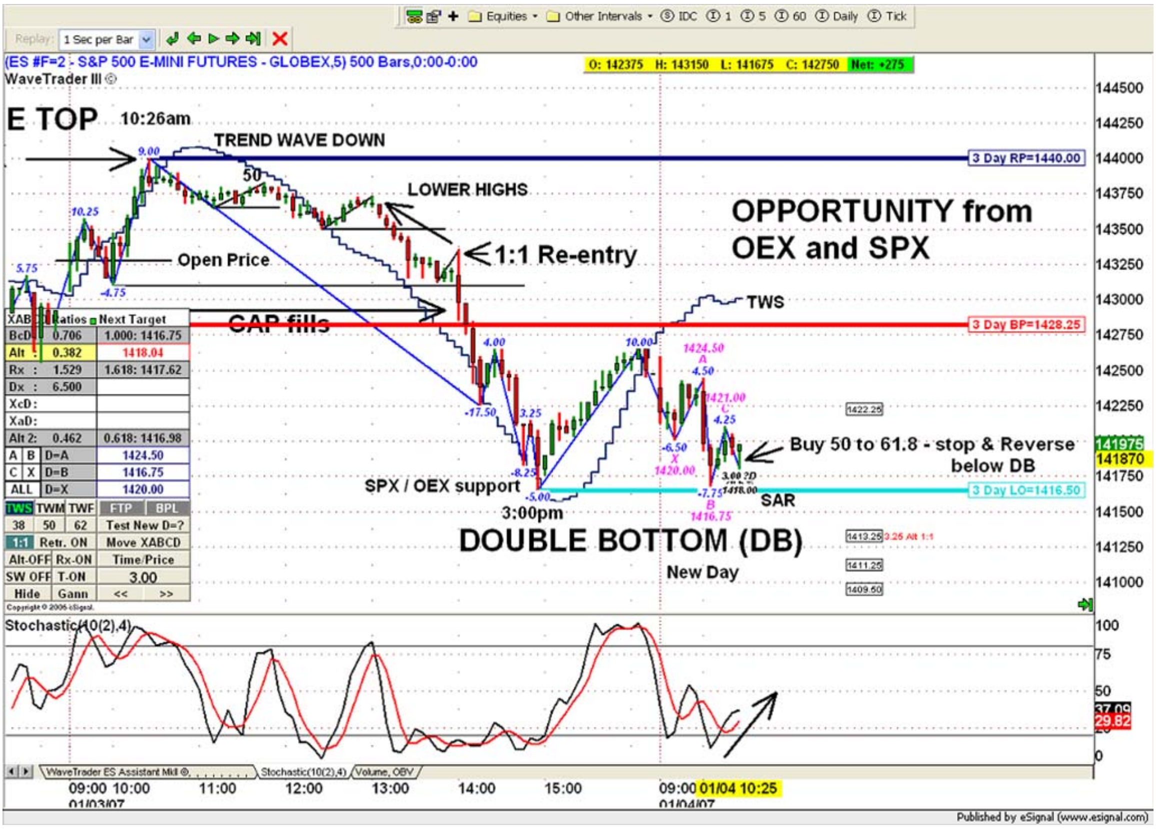
Pivots		Date	Time	Swing
X=				
A=	1431.81	18Dec 2006	10:00	
B=	1410.28	22Dec 2006	12:15	-21.53
C=	1429.42	3 Jan 2007	10:15	19.14
D=	1407.86	3 Jan 2007	14:45	-21.56

RSI	Stochastic	DMI
54.55	70.54	ADX: 22.81
UP	DOWN	+DI: 36.19 - DI: 19.96
Neutral	Neutral	LONG

355 Bars (~13 Days)
$SPX - 15 min.
A
B
C
D
1:1 GEOMETRY
Today
1418.34
1434.00
1432.00
1430.00
1428.00
1426.00
1424.00
1422.00
1420.00
1418.00
1416.00
1414.00
1412.00
1410.00
1408.00
1406.00
13:00 09:45 13:30 10:15 14:00 11:00 15:00 11:45 15:30 12:15 16:00 12:45 09:30 13:15 10:00 13:45 10:45 14:30 11:15 15:00 11:45 15:45 12:15 16:00
14.25

8 out of 10 times you get a second chance:

If you want to be sure and wait to enter with low risk after a double bottom or double top - go long or short with a SAR (stop and reverse order just across the line of support or resistance). If you are wrong you will always get your money back if the market breaks, so it is a good play. Another good play is to double up your original position if you have to stop & reverse as the wrong side will have to react on a break and you can scalp your loss back and let half run.



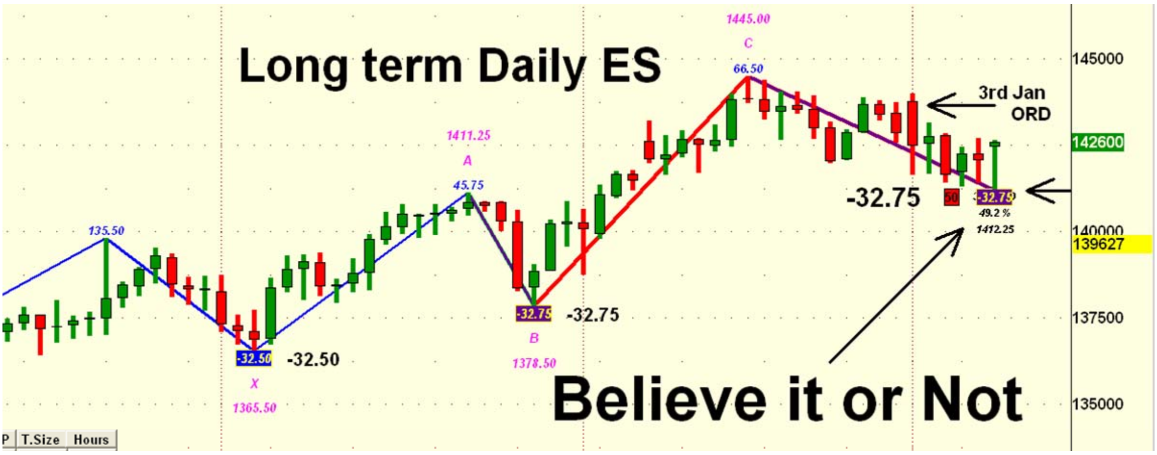
My advice on double bottoms and any trade for that matter is to make sure all the cash markets are agreeing with your decision process. If you don't and fly by the seat of your pants you will make a lot of bad decisions over time.

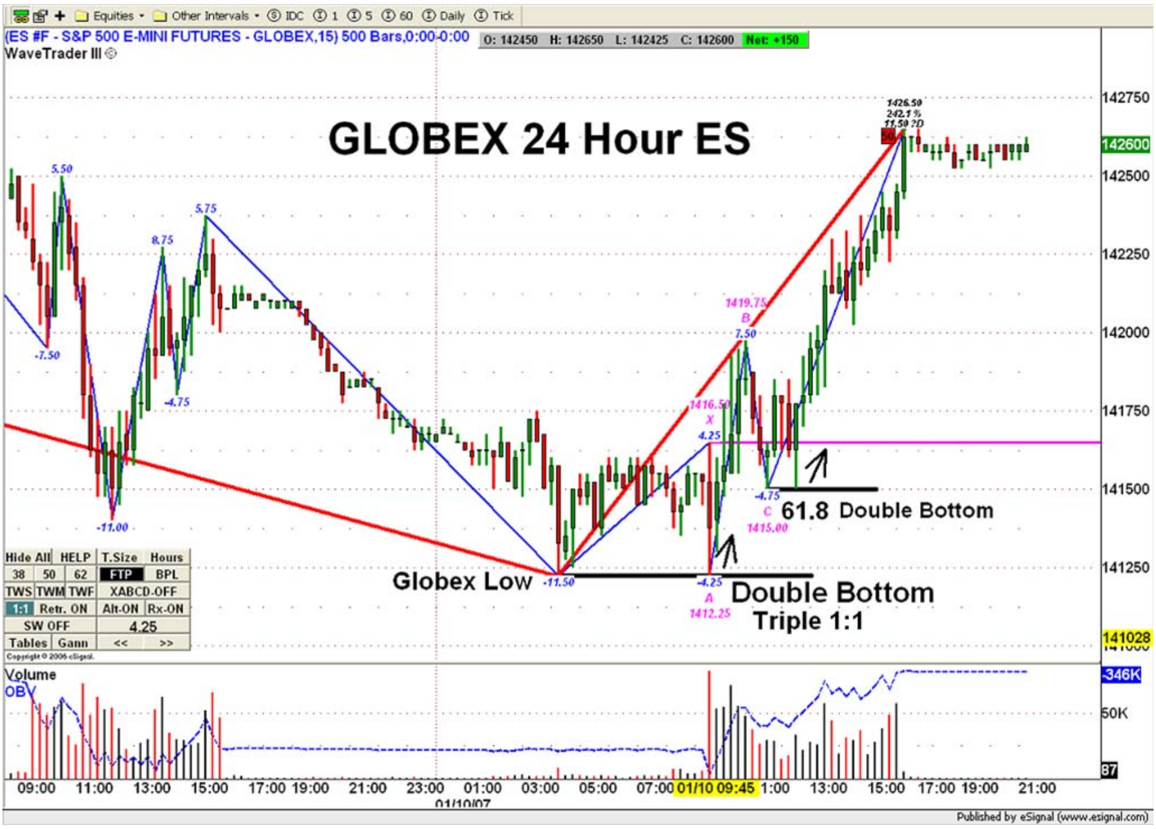
At the end of the day the way to make money trading is to only trade when you can see everything is in your favor. When you are not sure and it is hazy just leave it to the guessers to do whatever they like.

There is nothing to say you have to be in the market if you don't like what is going on, when all it takes to get back in is a legitimate set up.

The people who lose money are the ones who use methods that only give them entry opportunities every now and again and use back testing to take trades.

10th January, 2007: Double Bottom on a Large Degree 1:1

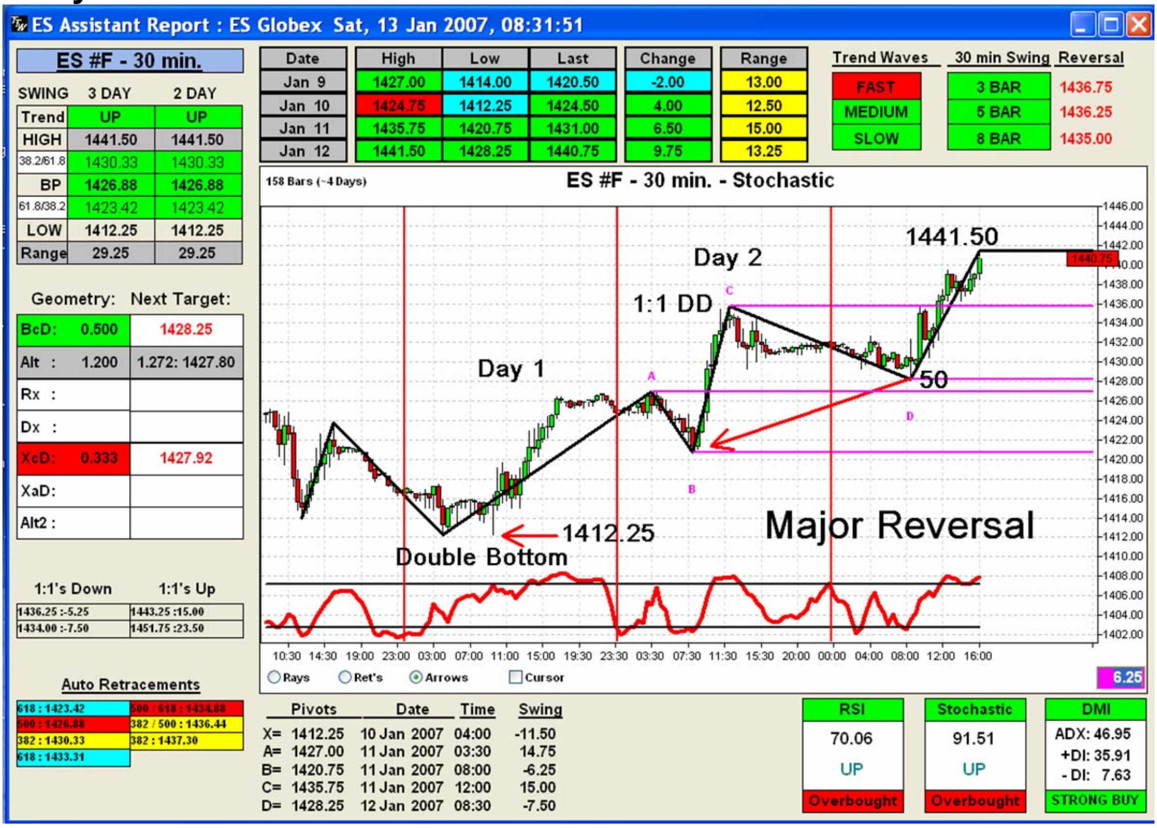




This example is a good one of a Double Bottom buy on major geometry.

The Globex first made a low on the triple 1:1 off the continuous daily chart and rallied slightly. When the day session began trading the market went down to test the night Globex low and reversed exactly on the double bottom. Later in the day after the first leg up to a GAP FILL the market retraced 61.8 and then later came back and made Double Bottom with that low.

2 days later:


ES Assistant Report : ES Globex Sat, 13 Jan 2007, 08:31:51
158 Bars (~4 Days)
ES #F - 30 min. - Stochastic
Day 1
Day 2
1:1 DD
1441.50
1440.75
50
A
B
C
D
1412.25
Double Bottom
Major Reversal
1446.00
1444.00
1442.00
1440.00
1438.00
1436.00
1434.00
1432.00
1430.00
1428.00
1426.00
1424.00
1422.00
1420.00
1418.00
1416.00
1414.00
1412.00
1410.00
1408.00
1406.00
1404.00
1402.00
10:30 14:30 19:00 23:00 03:00 07:00 11:00 15:00 19:30 23:30 03:30 07:30 11:30 15:30 20:00 00:00 04:00 08:00 12:00 16:00
○ Rays ○ Ret's ● Arrows ☐ Cursor
6.25

ES #F - 30 min.

SWING	3 DAY	2 DAY
Trend	UP	UP
HIGH	1441.50	1441.50
38.2/61.8	1430.33	1430.33
BP	1426.88	1426.88
61.8/38.2	1423.42	1423.42
LOW	1412.25	1412.25
Range	29.25	29.25

Date	High	Low	Last	Change	Range
Jan 9	1427.00	1414.00	1420.50	-2.00	13.00
Jan 10	1424.75	1412.25	1424.50	4.00	12.50
Jan 11	1435.75	1420.75	1431.00	6.50	15.00
Jan 12	1441.50	1428.25	1440.75	9.75	13.25

Trend Waves	30 min Swing	Reversal
FAST	3 BAR	1436.75
MEDIUM	5 BAR	1436.25
SLOW	8 BAR	1435.00

Geometry:	Next Target:
BcD: 0.500	1428.25
Alt : 1.200	1.272: 1427.80
Rx :	
Dx :	
XcD: 0.333	1427.92
XaD:	
Alt2 :	

1:1's Down	1:1's Up
1436.25 :-5.25	1443.25 :15.00
1434.00 :-7.50	1451.75 :23.50

Auto Retracements

618 : 1423.42	500 / 618 : 1434.88
500 : 1426.88	382 / 500 : 1436.44
382 : 1430.33	382 : 1437.30
618 : 1433.31	

	Pivots	Date	Time	Swing
X=	1412.25	10 Jan 2007	04:00	-11.50
A=	1427.00	11 Jan 2007	03:30	14.75
B=	1420.75	11 Jan 2007	08:00	-6.25
C=	1435.75	11 Jan 2007	12:00	15.00
D=	1428.25	12 Jan 2007	08:30	-7.50

RSI	Stochastic	DMI
70.06	91.51	ADX: 46.95
UP	UP	+DI: 35.91 - DI: 7.63
Overbought	Overbought	STRONG BUY

An excerpt from today in WTL:

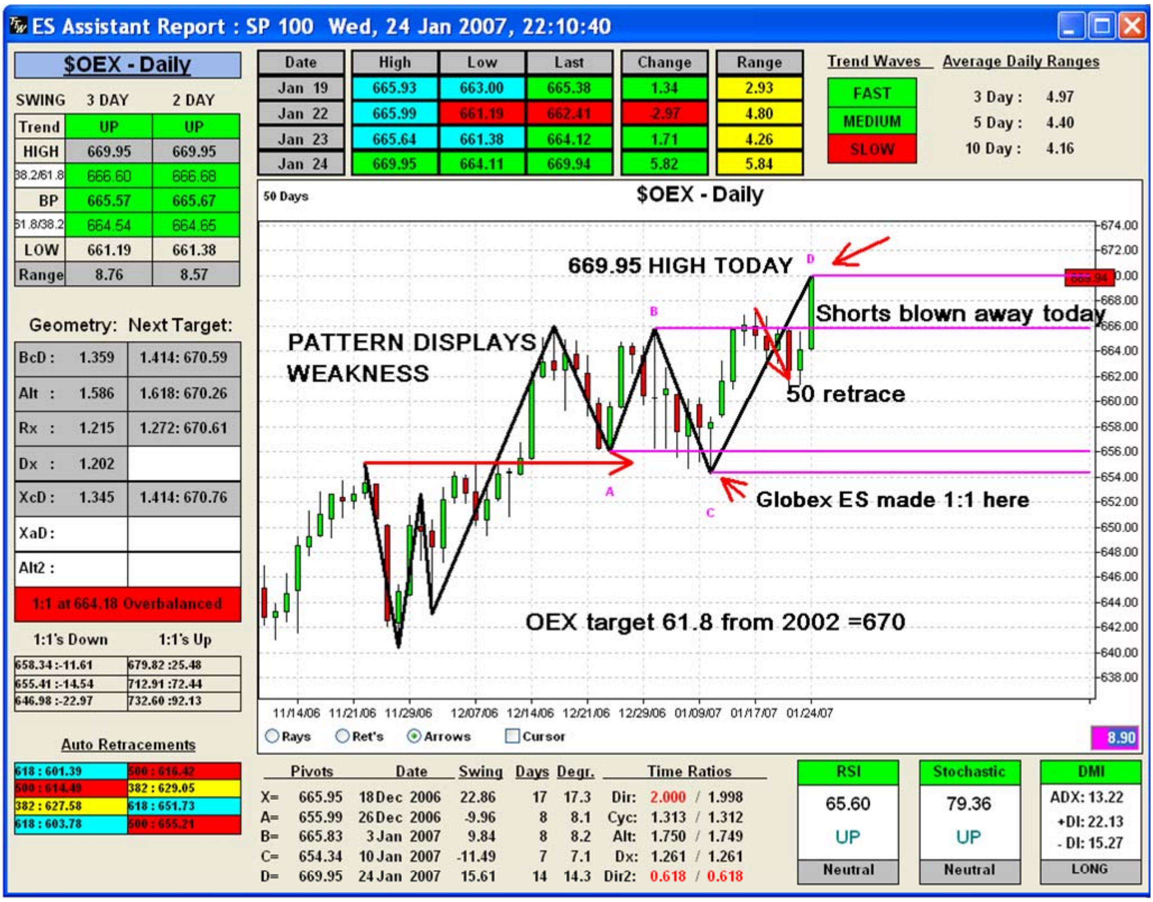
14:59:01 {BBG} It's interesting don't you think when you just look at this business as a job!
14:59:23 {BBG} That's all the big guys do.
14:59:44 {Hector} It takes a while to get there.
15:00:08 {Hector} But you are right about it just being a job.
15:00:24 {Wayne_R} Love it just need to make it profitable
15:00:57 {BBG} All you need do Wayne is get the rules right
15:00:59 {sangli} Would you call trading an addiction or devotion?
15:01:14 {BBG} It's a way of life
15:01:40 {Wayne_R} A Passion
15:01:54 {BBG} No just a way of life.
15:02:21 {BBG} You can either do it properly or you can't
15:03:05 {BBG} When you let other things get in the way you will never be able to do it.
15:04:00 {BBG} I have it down and I can come and go and still work out what they are doing most of the time
15:04:39 {Wayne_R} 3.00PM
15:04:46 {BBG} They are only human after all and they think like me
15:05:37 {BBG} You have to have had a misspent childhood to know what these guys are thinking
15:06:16 {BBG} You know card gambling, pool halls and all that stuff
15:06:36 {Hector} I need to learn how to play poker.
15:06:47 {BBG} These jokers come from the gutter and I have been there too.
15:07:56 {BBG} We all look good in our $2k suits and gold watches but we are grass roots people.
15:09:59 {BBG} The smart guys sit on the fence and let the floor traders do all the work till they get everyone lined up for an ass jabbing then they go for it.
15:12:03 {BBG} Back to the Devil and the deep blue sea again.

January 24th, 2007:

I have been away for over a week and this is how the market performed from the ES triple 1:1 and 50% retracement.

The OEX has been the leader and has finally reached a LONG TERM target of 61.8 retracement to all of the 2000-2002 Bear Market losses.

Now we are facing a TECHNICAL crossroads situation and it will be interesting to see the outcome.



ES Assistant Report : SP 100 Wed, 24 Jan 2007, 22:10:40

$OEX - Daily

SWING	3 DAY	2 DAY
Trend	UP	UP
HIGH	669.95	669.95
38.2/61.8	666.60	666.68
BP	665.57	665.67
61.8/38.2	664.54	664.65
LOW	661.19	661.38
Range	8.76	8.57

Date	High	Low	Last	Change	Range
Jan 19	665.93	663.00	665.38	1.34	2.93
Jan 22	665.99	661.19	662.41	-2.97	4.80
Jan 23	665.64	661.38	664.12	1.71	4.26
Jan 24	669.95	664.11	669.94	5.82	5.84

Trend Waves
FAST
MEDIUM
SLOW

Average Daily Ranges
3 Day : 4.97
5 Day : 4.40
10 Day : 4.16

Geometry:		Next Target:
BcD :	1.359	1.414: 670.59
Alt :	1.586	1.618: 670.26
Rx :	1.215	1.272: 670.61
Dx :	1.202	
XcD :	1.345	1.414: 670.76
XaD :		
Alt2 :		

1:1 at 664.18 Overbalanced

1:1's Down	1:1's Up
658.34 :-11.61	679.82 :25.48
655.41 :-14.54	712.91 :72.44
646.98 :-22.97	732.60 :92.13

Auto Retracements

618 : 601.39	500 : 616.42
500 : 614.49	382 : 629.05
382 : 627.58	618 : 651.73
618 : 603.78	500 : 655.21

Pivots		Date	Swing	Days	Degr.	Time Ratios	
X=	665.95	18 Dec 2006	22.86	17	17.3	Dir:	2.000 / 1.998
A=	655.99	26 Dec 2006	-9.96	8	8.1	Cyc:	1.313 / 1.312
B=	665.83	3 Jan 2007	9.84	8	8.2	Alt:	1.750 / 1.749
C=	654.34	10 Jan 2007	-11.49	7	7.1	Dx:	1.261 / 1.261
D=	669.95	24 Jan 2007	15.61	14	14.3	Dir2:	0.618 / 0.618

RSI	Stochastic	DMI
65.60 UP	79.36 UP	ADX: 13.22 +DI: 22.13 - DI: 15.27
Neutral	Neutral	LONG

50 Days
$OEX - Daily
669.95 HIGH TODAY
Shorts blown away today
PATTERN DISPLAYS WEAKNESS
50 retrace
Globex ES made 1:1 here
OEX target 61.8 from 2002 =670
A
B
C
D
674.00
672.00
668.00
666.00
664.00
662.00
660.00
658.00
656.00
654.00
652.00
650.00
648.00
646.00
644.00
642.00
640.00
638.00
11/14/06
11/21/06
11/29/06
12/07/06
12/14/06
12/21/06
12/29/06
01/09/07
01/17/07
01/24/07
○ Rays
○ Ret's
● Arrows
☐ Cursor
8.90

Now if the market does what I expect it should it will give me a good opportunity to write the next chapter.

This will be on the BREAK BACK SELLING OPPORTUNITIES that come along at different times.

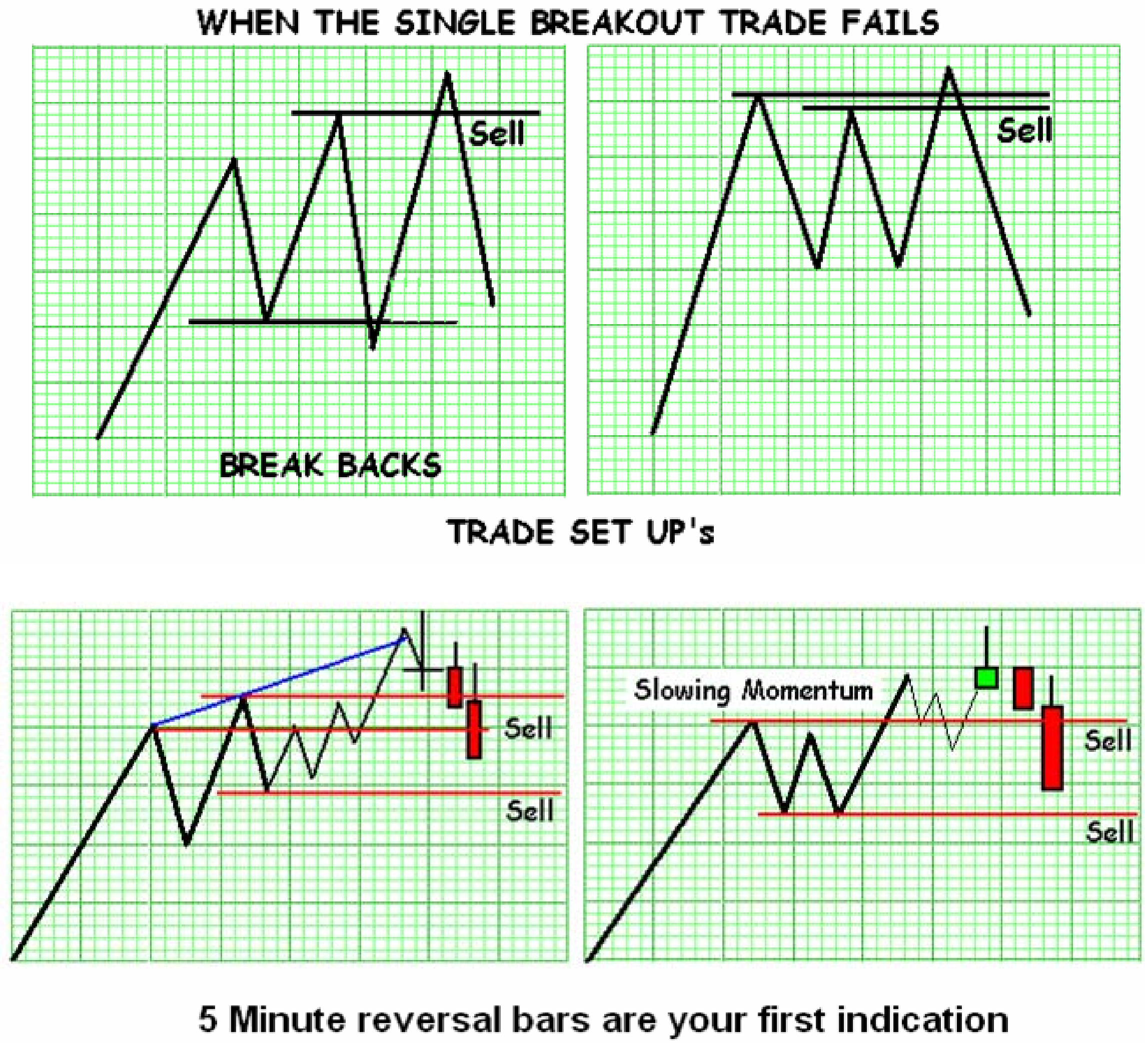
Chapter 27

The Break Back Sell Trade:

These trades often come along after you have had a strong upward move and the trend is showing signs of exhaustion by only breaking out to new highs slightly and then falling back.

The 3 drives to a high pattern is the warning sign that the market has a good possibility to fail on the final breakout.

The 5 minute TWS (trend wave) will generally be in a diverging phase throughout the topping pattern, i.e., it will be going down and not confirming the breaks up to new highs.

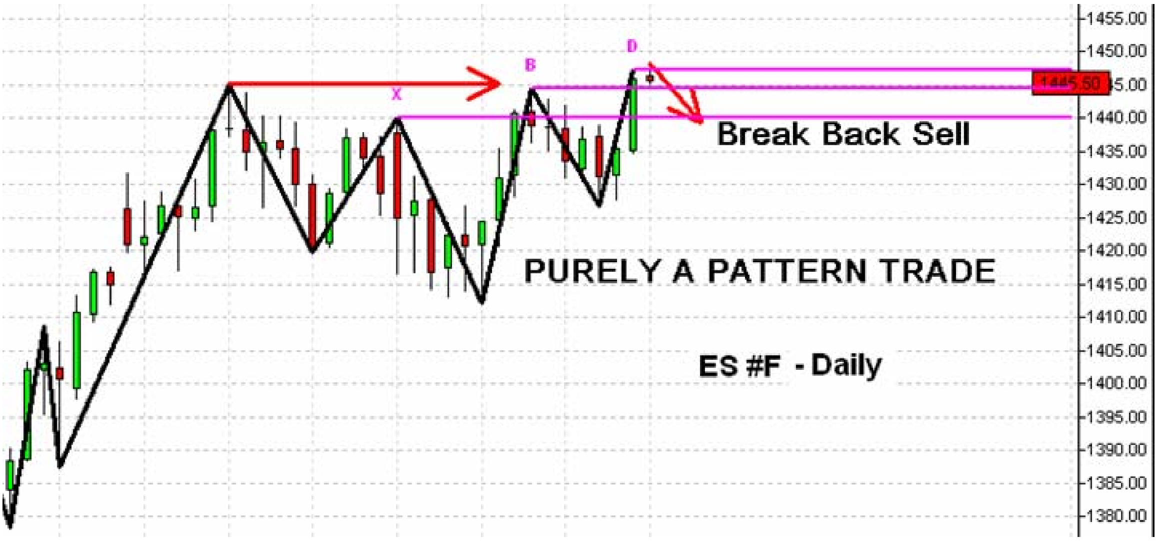

WHEN THE SINGLE BREAKOUT TRADE FAILS
Sell
Sell
BREAK BACKS
TRADE SET UP's
Sell
Sell
Slowing Momentum
Sell
Sell
5 Minute reversal bars are your first indication

There will usually be plenty of confirming signs associated with a pattern that has all the earmarks of exhausting and breaking back after making a new daily, weekly or monthly high.

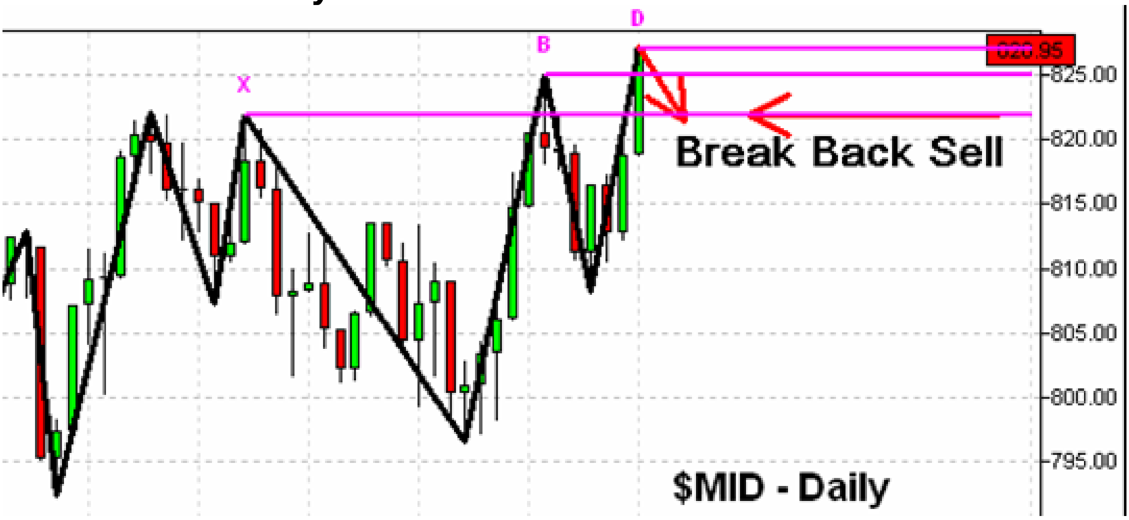
The main one I like is when you have a combination of the ES, MID, OEX and the SPX all struggling at the same time.

The following chart patterns were recorded after the close of business on the 24th January 2007:

The ES Globex 24 hour:

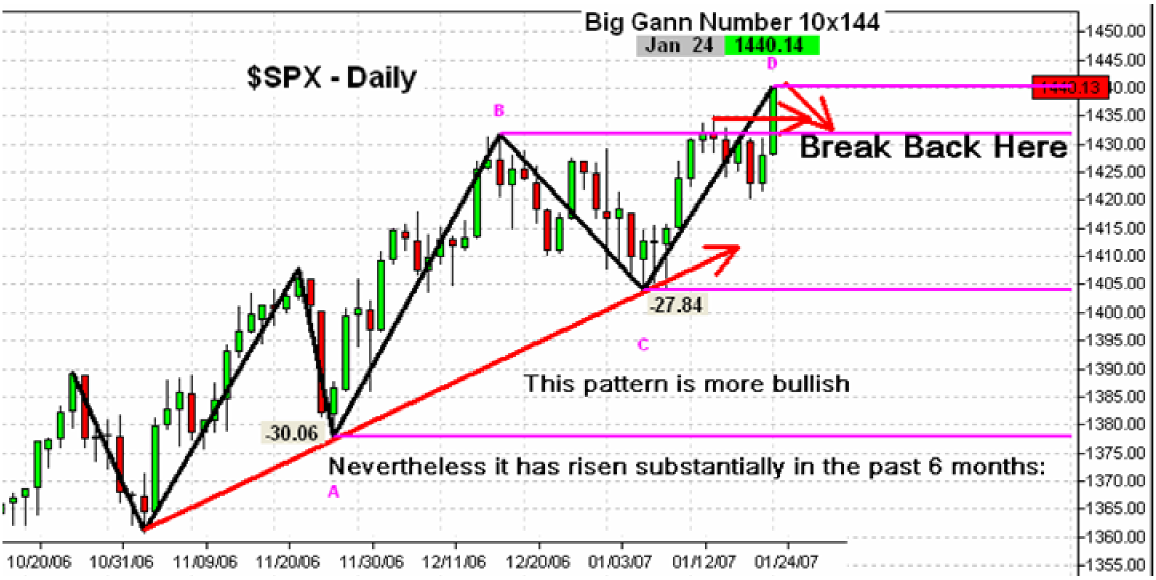


The MID 400 – Daily:



The first observation from the MID is that it maybe breaking out, but if it falls back it will signal weakness. So right now the opportunity is hypothetical.

The SPX – Daily:



This chart is displaying a lot more of a bullish outcome to the break out to a new high, nevertheless it has finally made it to a level of 1440 with the OEX reaching a MAJOR DEGREE 61.8 level at the same time. This may seem coincidental but with the dual associations there could be a strong backlash to trend that has been in force for so long.

It is never certain what the larger degree players will do in situations like this but it is fair to say that they will know about this just the same as I do. Once we see what they do well then we have that edge to know if we are going to sell or not.

If the OEX goes up 2 or more points higher and the SPX moves on a little more then the whole preparation will become worthless in the BIGGER PICTURE, so we can resume working back with the ongoing trend in the smaller picture.

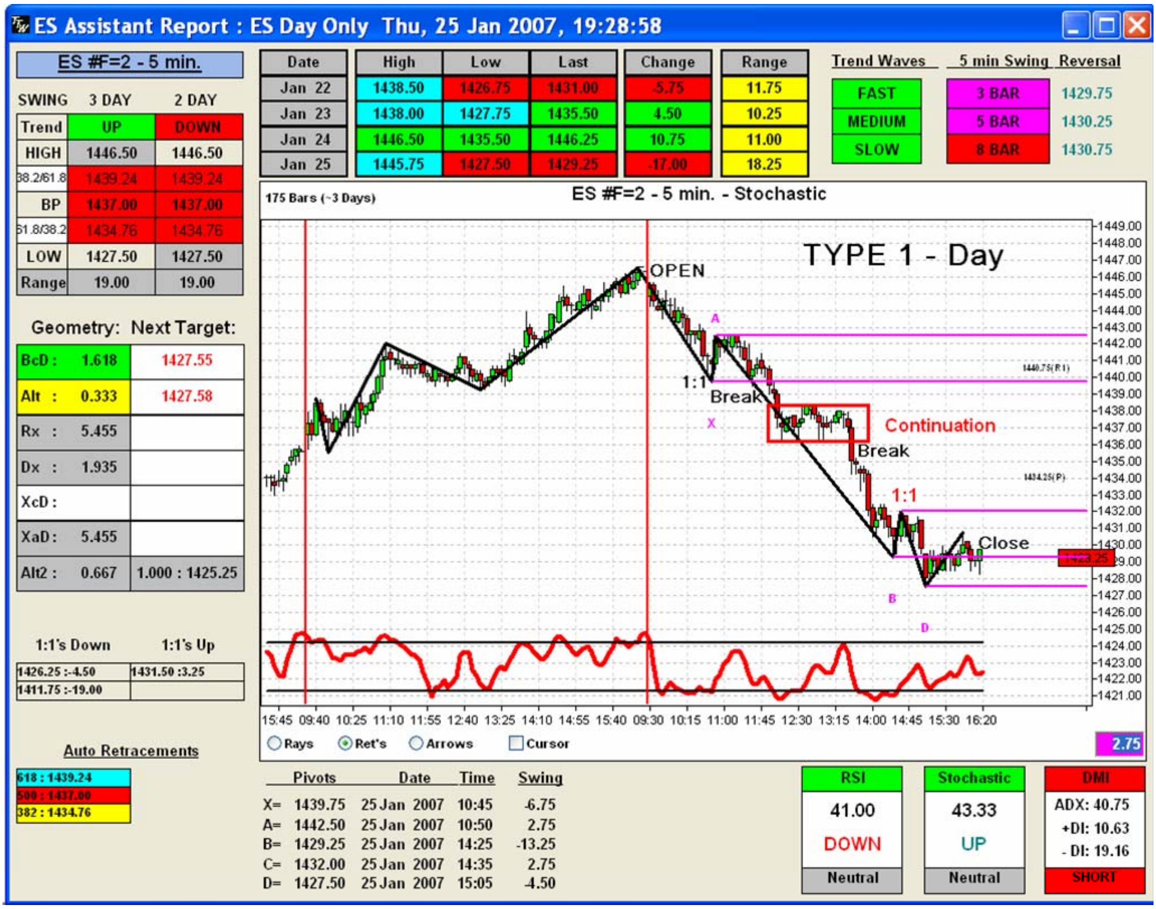
I have a weekly chart back in Chapter 4 on page 23 where I outlined the target price of 670 for the OEX. It was always a target and if anyone has been listening to me over the past several months they would have known that.

Right now everything is in play for a potential reversal; all that needs to happen is for the market to say, YES or NO. I have no idea what it will do but by the markets actions I will know what the right thing to do is.

Opportunity lies ahead one way or the other, but in my view the SELL SIDE offers the greatest opportunity at the moment. Maybe I will be wrong and maybe I will be right, but at least I know by using my knowledge that I have given myself the best chance. That’s all this business is about anyway.

HOW DID IT TURN OUT?

Very good you could say. Today we had a TYPE 1 day on the ES which was down from start to finish.



ES Assistant Report : ES Day Only Thu, 25 Jan 2007, 19:28:58

ES #F=2 - 5 min.

SWING	3 DAY	2 DAY
Trend	UP	DOWN
HIGH	1446.50	1446.50
38.2/61.8	1439.24	1439.24
BP	1437.00	1437.00
61.8/38.2	1434.76	1434.76
LOW	1427.50	1427.50
Range	19.00	19.00

Date	High	Low	Last	Change	Range
Jan 22	1438.50	1426.75	1431.00	-5.75	11.75
Jan 23	1438.00	1427.75	1435.50	4.50	10.25
Jan 24	1446.50	1435.50	1446.25	10.75	11.00
Jan 25	1445.75	1427.50	1429.25	-17.00	18.25

Trend Waves	5 min Swing	Reversal
FAST	3 BAR	1429.75
MEDIUM	5 BAR	1430.25
SLOW	8 BAR	1430.75

Geometry:	Next Target:
BcD : 1.618	1427.55
Alt : 0.333	1427.58
Rx : 5.455	
Dx : 1.935	
XcD :	
XaD : 5.455	
Alt2 : 0.667	1.000 : 1425.25

1:1's Down	1:1's Up
1426.25 :-4.50	1431.50 :3.25
1411.75 :-19.00	

Auto Retracements

618 : 1439.24
500 : 1437.00
382 : 1434.76

175 Bars (~3 Days)

ES #F=2 - 5 min. - Stochastic

TYPE 1 - Day
OPEN
A
1:1
Break
X
Continuation
Break
1:1
Close
B
D
1440.75(R1)
1434.25(P)
1429.25
1449.00
1448.00
1447.00
1446.00
1445.00
1444.00
1443.00
1442.00
1441.00
1440.00
1439.00
1438.00
1437.00
1436.00
1435.00
1434.00
1433.00
1432.00
1431.00
1430.00
1429.00
1428.00
1427.00
1426.00
1425.00
1424.00
1423.00
1422.00
1421.00
15:45 09:40 10:25 11:10 11:55 12:40 13:25 14:10 14:55 15:40 09:30 10:15 11:00 11:45 12:30 13:15 14:00 14:45 15:30 16:20
○ Rays ● Ret's ○ Arrows ☐ Cursor
2.75

Pivots		Date	Time	Swing
X=	1439.75	25 Jan 2007	10:45	-6.75
A=	1442.50	25 Jan 2007	10:50	2.75
B=	1429.25	25 Jan 2007	14:25	-13.25
C=	1432.00	25 Jan 2007	14:35	2.75
D=	1427.50	25 Jan 2007	15:05	-4.50

RSI	Stochastic	DMI
41.00 DOWN	43.33 UP	ADX: 40.75 +DI: 10.63 - DI: 19.16
Neutral	Neutral	SHORT

All the preparation was well worth the trouble as once the market opened it showed weakness at the onset.

After making a 1:1 down to equal a prior correction in the run up from 3 days back the ES could not even make better than a 40% correction of +2.75 before breaking down again.

After that the new downtrend went sideways over lunchtime in a 1:1 of 2 pts with an earlier correction before breaking down again. Next we had a rally that did not exceed the original 2.75 from earlier before it fell down again.

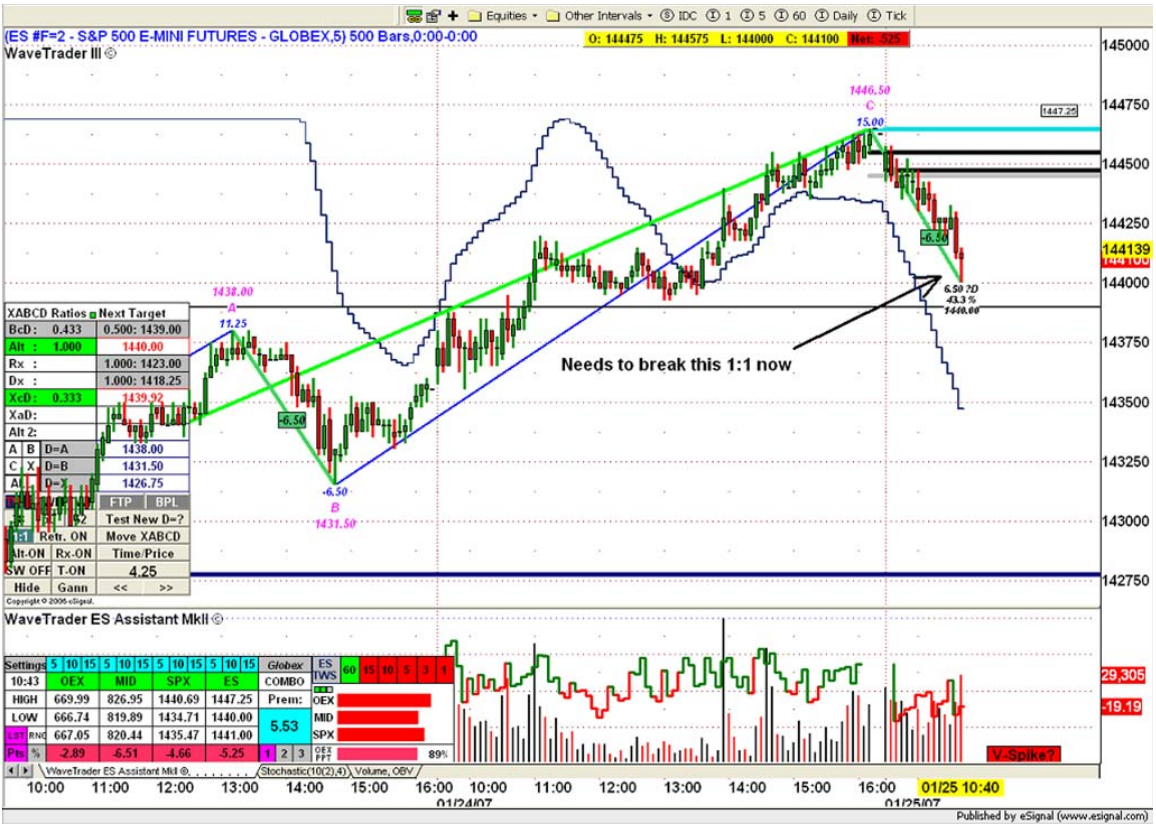
All in all the natives were selling on rallies and not buying except to cover for profits. It was one of those days where knowing what motivates the players is pure gold to the smart money players.

TRANSCRIPT from our Hot Comm Room today 1/25/2007.

02:42:36 {BBG} I finally got back to work on the PA book.
02:44:15 {BBG} You will remember some of this
02:44:29 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024429_BBG.HCC>>
02:44:44 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024444_BBG.HCC>>
02:44:58 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024458_BBG.HCC>>
02:45:19 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024519_BBG.HCC>>
02:45:31 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024531_BBG.HCC>>
02:46:05 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024605_BBG.HCC>>
02:46:20 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024620_BBG.HCC>>
02:46:31 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024631_BBG.HCC>>
02:46:40 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024640_BBG.HCC>>
02:47:00 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024700_BBG.HCC>>
02:47:10 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024710_BBG.HCC>>
02:49:11 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t024911_BBG.HCC>>
02:49:54 {BBG} Well that's it till I see what eventuates.
04:48:45 {BBG} Decode this was sent to President Bush by Osama Bin Ladin
04:49:33 {BBG} 370HSSV-O773H

04:51:16 {Tony_B} G'day Bryce
04:51:39 {BBG} Hi
05:01:20 {Tony_B} interesting times Bryce have only been monitoring the market for the last couple of weeks but will be back into it fulltime by end of next week and I think we should be in for an interesting ride for a while
05:02:40 {Tony_B} I will obviously need the software then
08:16:52 {Paul_H} morning all
08:18:59 {Richard_To<ZH>} good morning
08:19:03 {Melvin} Morning all
08:20:41 {Wayne_R<EN>} Good Morning All
08:20:45 {Walks} Morning
08:23:36 {Nathan_W<EN>} evening all
08:36:45 {KT} Morning All
09:01:45 {Hector} Morning all.
09:04:05 {Nick_S<EN>} Hi all.
09:09:14 {Richard_To} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t090914_Richard To.HCC>>
09:09:52 {Richard_To} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t090952_Richard To.HCC>>
09:10:43 {Richard_To<ZH>} "HELLO ASSHOLE"
09:11:42 {Nathan_W<EN>} hello richard?
09:11:56 {Richard_To<ZH>} the message to the cow boy
09:31:21 {Clive<EN>} morning a;;
09:31:35 {Nathan_W<EN>} hi c;ive
09:31:54 {Clive<EN>} cheers Nathans :)
09:34:49 {Nathan_W<EN>} sell off the open?
09:36:40 {Nathan_W<EN>} at**
09:48:40 {Hector} .
09:59:44 {Richard_To<ZH>} I'll be righttttt Bacckkkk !
10:14:35 {Hector} .
10:19:02 {Dr_Chris} Good Morning Traders!
10:19:14 {Nathan_W<EN>} hi dr chris
10:27:12 {BBG} Chris did you get your upgrade?
10:28:58 {Nathan_W<EN>} Happy Australia Day to all those australians in here
10:29:22 {Wayne_R<EN>} Ditto
10:31:02 {Nick_S} same here.

10:46:56 {BBG} Well, it all looks like it is going to plan so far!!!
10:47:51 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t104751_BBG.HCC>>



Needs to break this 1:1 now

XABCD Ratios		Next Target
BcD:	0.433	0.500: 1439.00
Alt :	1.000	1440.00
Rx :		1.000: 1423.00
Dx :		1.000: 1418.25
XcD:	0.333	1439.92
XaD:		
Alt 2:		
A B	D=A	1438.00
C X	D=B	1431.50
A	D=X	1426.75

		FTP BPL
	52	Test New D=?
1:1	Retr. ON	Move XABCD
Alt-ON	Rx-ON	Time/Price
SW OFF	T-ON	4.25
Hide	Gann	<< >>

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WaveTrader ES Assistant MkII ©

Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
10:43	OEX	MID	SPX	ES	COMBO
HIGH	669.99	826.95	1440.69	1447.25	Prem:
LOW	666.74	819.89	1434.71	1440.00	5.53
LST RNG	667.05	820.44	1435.47	1441.00	
Pts %	-2.89	-6.51	-4.66	-5.25	1 2 3

ES TWS	60	15	10	5	3	1

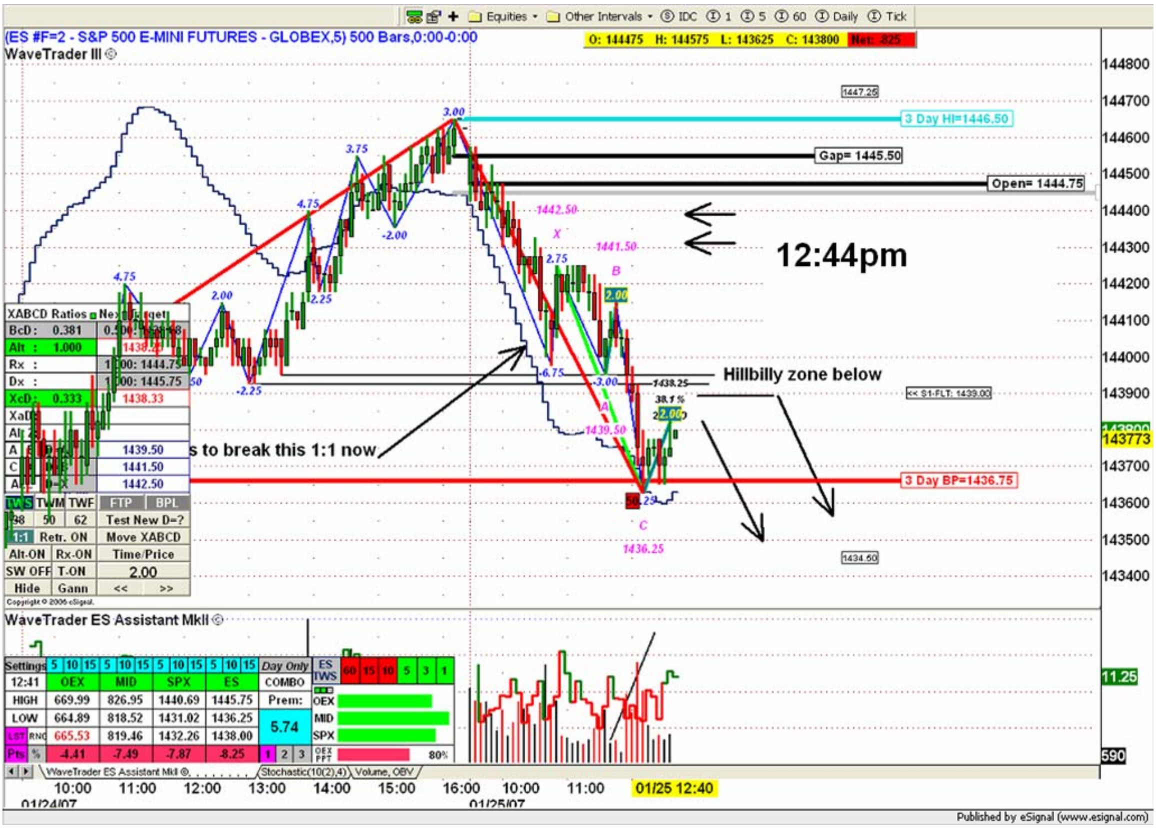
OEX
MID
SPX
OEX PPT 89%

WaveTrader ES Assistant MkII ©, Stochastic(10(2),4), Volume, OBV

10:50:01 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t105001_BBG.HCC>>
10:50:13 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t105013_BBG.HCC>>
10:50:27 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t105027_BBG.HCC>>
10:50:39 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t105039_BBG.HCC>>
10:58:59 {Hector} .
10:59:27 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t105927_BBG.HCC>>
10:59:27 {BBG} <<Timed Camera (1.0s) On>>
11:08:53 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t110853_BBG.HCC>>

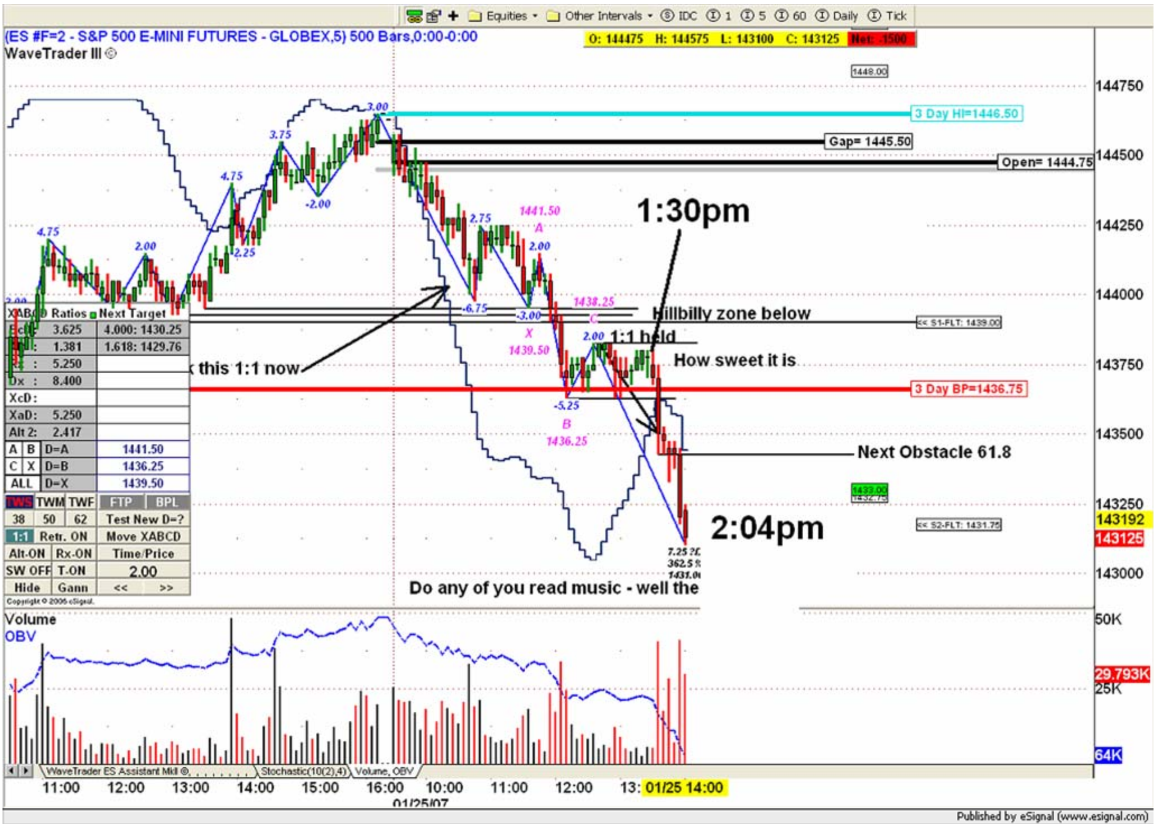
11:10:17 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t111017_BBG.HCC>>
11:11:27 {BBG} <<Timed Camera (1.0s) Off>>
11:11:33 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t111133_BBG.HCC>>
11:11:33 {BBG} <<Timed Camera (1.0s) On>>
11:22:27 {Nick_S<EN>} BBG, when the MID/OEX/SPX all made 38.2's at 10.45 am, was that a signal to scalp the move up ?
11:23:34 {BBG} technically the day traders would buy the 1:1 so what is happening right now is understandable.
11:24:19 {BBG} If the rally can't break the 50 up of the move down they will start selling again.
11:25:01 {Nick_S<EN>} Excellent, thanks for that.
11:28:51 {BBG} MID has a 1:1 on 38.2 there as well
11:29:42 {BBG} OEX has only 38.2
11:30:43 {BBG} SPX has 1:1 and 38.2 so that level at todays low is the MOB everyone knows about.
11:31:16 {BBG} If it comes out they will sell like there's no tomorrow.
11:31:37 {BBG} This is the beauty of this method
11:32:22 {BBG} You know where you are at all times
11:35:22 {Nick_S<EN>} There would probably be some SP EMINI traders who don't even look at the OEX and MID but only the SPX?
11:35:51 {BBG} That's right most of the idiots don't even look at the SPX
11:36:48 {BBG} That's why they get their ass handed to them lots of the time
11:42:14 {BBG} Now they are (expletive)
11:43:15 {BBG} Well nearly (expletive)
11:43:52 {BBG} They are right where that guy in Deliverance was with the hillbilly holding his ear.
11:47:19 {BBG} Yigit you here
11:48:58 {Yigit} yes Bryce
11:49:55 {BBG} <<Timed Camera (1.0s) Off>>
12:00:36 {BBG} <<Timed Camera (1.0s) On>>
12:12:30 {BBG} Now for the 50 and it's really going to hurt the bulls
12:12:57 {Nathan_W<EN>} I'll be rightttttt Bacckkkk !
12:18:59 {BBG} Gottcha
12:19:38 {BBG} This is beautiful to watch when you know why this is happening.
12:26:20 {BBG} Who's the leader of the band? M I C K EY M O U S E
12:28:47 {Nick_S} It looks like the move has run out of steam, would have the low been a good place to take your money and run.
12:29:27 {BBG} Depends how much faith you have in human nature Nick

12:30:00 {BBG} It's a sell until it breaks over +2.75 back up.
12:30:45 {BBG} OEX is not going up
12:32:21 {BBG} Personally I think the shit is going to hit the fan
12:32:54 {BBG} and the bulls will bleed after today



12:32:54 {Nick_S} OEX is at 47% ppt,could this be the reason why this has stalled a bit.
12:33:25 {BBG} My chart says 80% what are you looking at?
12:34:28 {BBG} BTW it hasn't stalled it is just doing what it needs to do.
12:34:45 {Nick_S} Wrong number,sorry about that.
12:35:09 {Nick_S} Would this be distribution then?
12:35:21 {BBG} Every thing has Broken back now so the bears are in control.
12:37:08 {BBG} This is the real thing Nick
12:37:30 {BBG} Guys like Tudor Jones will keep selling into it
12:38:57 {BBG} You will know if they stop if it breaks 2.75 up.
12:40:05 {Nick_S} Thanks for that, I will be on the lookout for that
12:52:50 {BBG} <<Timed Camera (1.0s) Off>>
12:53:01 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t125301_BBG.HCC>>

12:53:16 {BBG} <<file:C:\Program Files\1stWORKS\hotcomm3\WEB\WTL\UPLOADS\2007-01-25 t125316_BBG.HCC>>
12:53:16 {BBG} <<Timed Camera (1.0s) On>>
13:00:40 {Wayne_R<EN>} Banjo duel going on here
13:01:09 {BBG} duelling Banjo's !
13:05:51 {BBG} <<Timed Camera (1.0s) Off>>
13:26:08 {BBG} <<Timed Camera (1.0s) On>>
13:35:42 {BBG**} Well it is 1:30 now they have had it here for all of lunch time so expect them to either try and push it back up or back down from here on.**



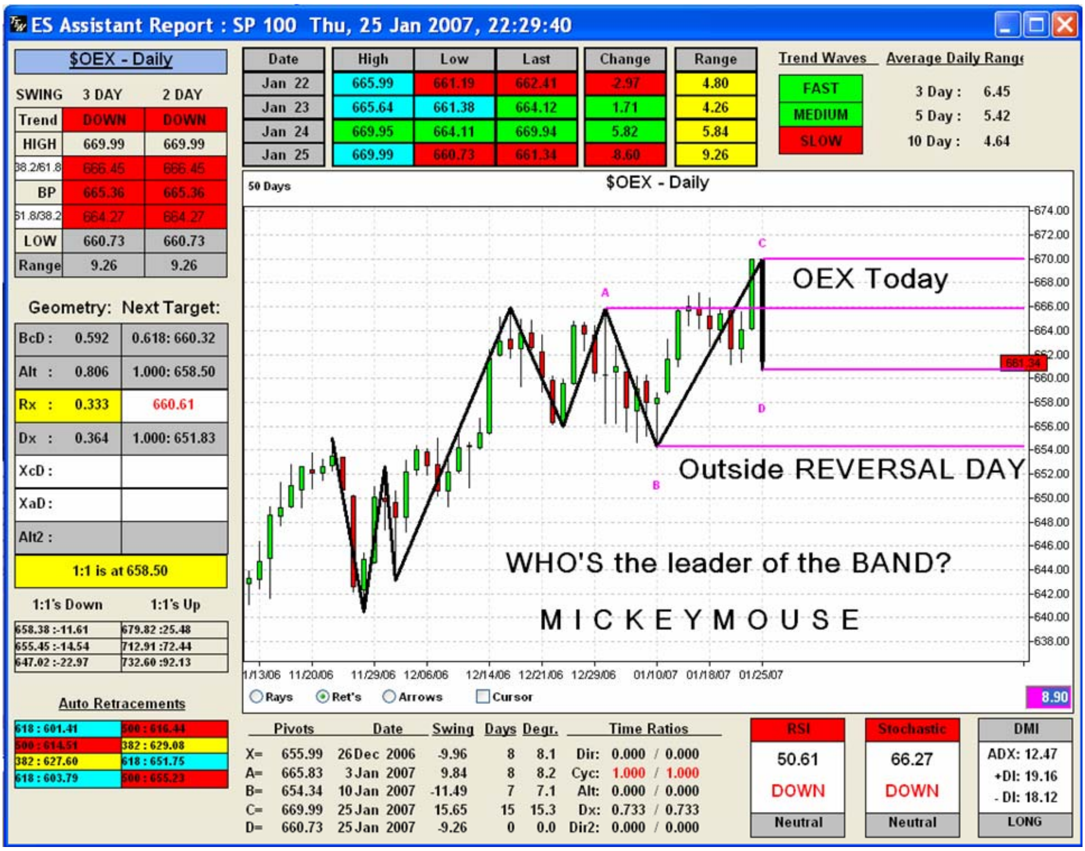
13:47:35 {BBG} You guys don't talk much???
13:48:11 {Nathan_W<EN>} I think that answers your question bryce
13:53:04 {BBG} Today so far has been a complete TURKEY SHOOT
13:53:36 {BBG} But I had you ready for it if you had the faith
13:54:49 {Wayne_R<EN>} You did indeed and thanks!
13:55:59 {BBG} These methods if you learn them are the best you will ever find.
13:57:01 {BBG} Nothing I have ever seen beats them.
13:59:30 {BBG} I think I can continue Chapter 27 with some authority after this.

14:13:30 {BBG} Well, they might have had enough by now so I am racking the cue
14:15:00 {Wayne_R<EN>} Cu later Bryce thanks
14:16:12 {Nathan_W<EN>} ciao
14:16:23 {BBG} They might put the vaseline away for the rest of the day
14:16:57 {Nick_S} Thanks BBG,I doubt they even loobed up.
14:17:06 {BBG} But the 2.75 and 2 up are still in play
14:17:27 {Wayne_R<EN>} Well that bloody tune is still playing in my ear
14:17:58 {Tony_B} IT LOOKS LIKE THEY KEPT IT DRY AND ENJOYED THE SQUEALING TO ME
14:18:45 {Wayne_R<EN>} Laughing out loud !
14:19:26 {Nick_S} gold
14:26:30 {BBG} I might just take this transcript of today and put it in the PA book with charts along the way.
14:28:16 {BBG} It will be a good reminder for everyone in the future.
14:30:12 {Wayne_R<EN>} In that case I had better correct my spelling of Banjo , you never know what people will think when thay read Bango
14:30:56 {BBG} I'll fix that
14:31:27 {BBG} I'll clean it up a bit
14:31:55 {Wayne_R<EN>} Point taken
14:31:56 {BBG} Or clean my lines up
14:32:14 {sangli} Must be the Australian National holiday bring us the Good Luck!
14:32:33 {BBG} Yeah it is a holiday here
14:32:39 {BBG} today
14:32:48 {BBG} everyone gets on the piss
14:33:49 {BBG} But did you know that this OEX was up 180 degrees from July low when it hit 670
14:34:20 {sangli} 1:1 (-17.75, -18.0) and 50% ret from 1412.25 low
14:35:29 {BBG} <<Timed Camera (1.0s) Off>>
14:35:30 {Wayne_R<EN>} No bryce but you gave us a clue a week or so ago .
14:35:45 {sangli} The above geometries are based on the glbx session
14:36:24 {BBG} Must have been SPX
14:45:09 {BBG} Just went 2.75 up
14:45:25 {BBG} and sellers attacked it again
14:59:56 {Hector} .

Most of the transcript after this was related to other matters, but the live camera was running with comments posted on the chart.

Nevertheless you should be able to suss out the timeliness of this medium of communication if you are reasonably smart.

We keep posting relevant charts to the room as the market moves along.



ES Assistant Report : SP 100 Thu, 25 Jan 2007, 22:29:40

$OEX - Daily

SWING	3 DAY	2 DAY
Trend	DOWN	DOWN
HIGH	669.99	669.99
38.2/61.8	666.45	666.45
BP	665.36	665.36
61.8/38.2	664.27	664.27
LOW	660.73	660.73
Range	9.26	9.26

Date	High	Low	Last	Change	Range
Jan 22	665.99	661.19	662.41	-2.97	4.80
Jan 23	665.64	661.38	664.12	1.71	4.26
Jan 24	669.95	664.11	669.94	5.82	5.84
Jan 25	669.99	660.73	661.34	-8.60	9.26

Trend Waves

FAST
MEDIUM
SLOW

Average Daily Range

3 Day : 6.45
5 Day : 5.42
10 Day : 4.64

Geometry:		Next Target:
BcD :	0.592	0.618: 660.32
Alt :	0.806	1.000: 658.50
Rx :	0.333	660.61
Dx :	0.364	1.000: 651.83
XcD :		
XaD :		
Alt2 :		

1:1 is at 658.50

1:1's Down	1:1's Up
658.38 :-11.61	679.82 :25.48
655.45 :-14.54	712.91 :72.44
647.02 :-22.97	732.60 :92.13

Auto Retracements

618 : 601.41	500 : 616.44
500 : 614.51	382 : 629.08
382 : 627.60	618 : 651.75
618 : 603.79	500 : 655.23

50 Days
$OEX - Daily
674.00
672.00
670.00
668.00
666.00
664.00
662.00
660.00
658.00
656.00
654.00
652.00
650.00
648.00
646.00
644.00
642.00
640.00
638.00
661.34
A
B
C
D
1/13/06
11/20/06
11/29/06
12/06/06
12/14/06
12/21/06
12/29/06
01/10/07
01/18/07
01/25/07
8.90

OEX Today

Outside REVERSAL DAY

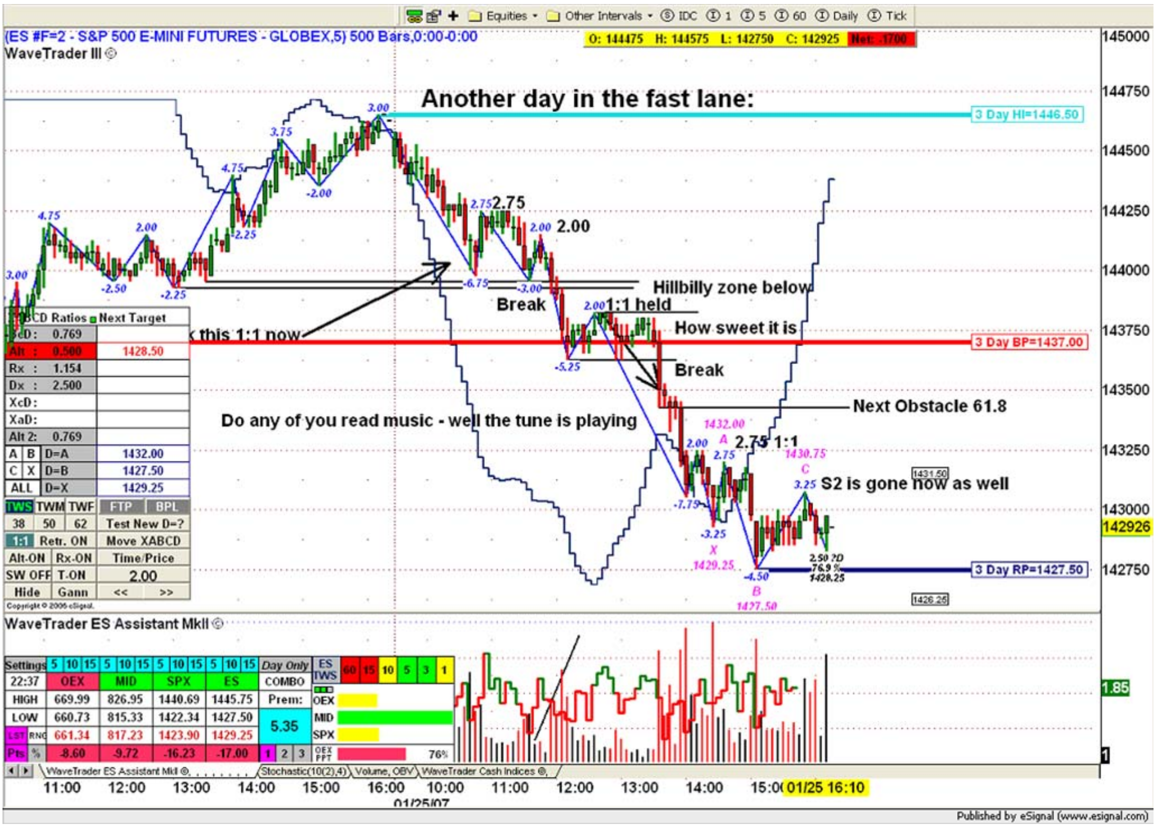
WHO'S the leader of the BAND?

M I C K E Y M O U S E

○ Rays ● Ret's ○ Arrows ☐ Cursor

Pivots		Date	Swing	Days	Degr.	Time Ratios	
X=	655.99	26 Dec 2006	-9.96	8	8.1	Dir:	0.000 / 0.000
A=	665.83	3 Jan 2007	9.84	8	8.2	Cyc:	1.000 / 1.000
B=	654.34	10 Jan 2007	-11.49	7	7.1	Alt:	0.000 / 0.000
C=	669.99	25 Jan 2007	15.65	15	15.3	Dx:	0.733 / 0.733
D=	660.73	25 Jan 2007	-9.26	0	0.0	Dir2:	0.000 / 0.000

RSI	Stochastic	DMI
50.61 DOWN	66.27 DOWN	ADX: 12.47 +DI: 19.16 - DI: 18.12
Neutral	Neutral	LONG



Equities
Other Intervals
IDC
1
5
60
Daily
Tick

(ES #F=2 - S&P 500 E-MINI FUTURES - GLOBEX,5) 500 Bars,0:00-0:00

O: 144475 H: 144575 L: 142750 C: 142925 Net: -1700

WaveTrader III ©

Another day in the fast lane:

3 Day HI=1446.50

this 1:1 now

Break

Hillbilly zone below

1:1 held

How sweet it is

3 Day BP=1437.00

Break

Next Obstacle 61.8

Do any of you read music - well the tune is playing

2.75 1:1

S2 is gone now as well

3 Day RP=1427.50

145000
144750
144500
144250
144000
143750
143500
143250
143000
142926
142750
3.00
4.75
2.00
-2.50
-2.25
4.75
-2.25
3.75
-2.00
3.00
2.75 2.75
2.00 2.00
-6.75
-3.00
2.00
-5.25
1432.00
A
2.00
2.75
-7.75
-3.25
X
1429.25
-4.50
B
1427.50
1430.75
C
3.25
1431.50
2.50 ?D
76.9 %
1428.25
1426.25
1.85

XABCD Ratios		Next Target
BcD :	0.769	
Alt :	0.500	1428.50
Rx :	1.154	
Dx :	2.500	
XcD :		
XaD :		
Alt 2:	0.769	
A B	D=A	1432.00
C X	D=B	1427.50
ALL	D=X	1429.25

TWS	TWM	TWF	FTP	BPL
38	50	62	Test New D=?	
1:1	Retr. ON		Move XABCD	
Alt-ON	Rx-ON		Time/Price	
SW OFF	T-ON		2.00	
Hide	Gann		<<	>>

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WaveTrader ES Assistant MkII ©

Settings	5 10 15	5 10 15	5 10 15	5 10 15	Day Only
22:37	OEX	MID	SPX	ES	COMBO
HIGH	669.99	826.95	1440.69	1445.75	Prem:
LOW	660.73	815.33	1422.34	1427.50	5.35
LST RNG	661.34	817.23	1423.90	1429.25	
Pts %	-8.60	-9.72	-16.23	-17.00	1 2 3

ES TWS	60	15	10	5	3	1

OEX
MID
SPX
OEX PPT 76%

WaveTrader ES Assistant MkII ©
Stochastic(10(2),4)
Volume, OBV
WaveTrader Cash Indices ©
11:00
12:00
13:00
14:00
15:00
16:00
10:00
11:00
12:00
13:00
14:00
15:00
01/25 16:10
01/25/07
1

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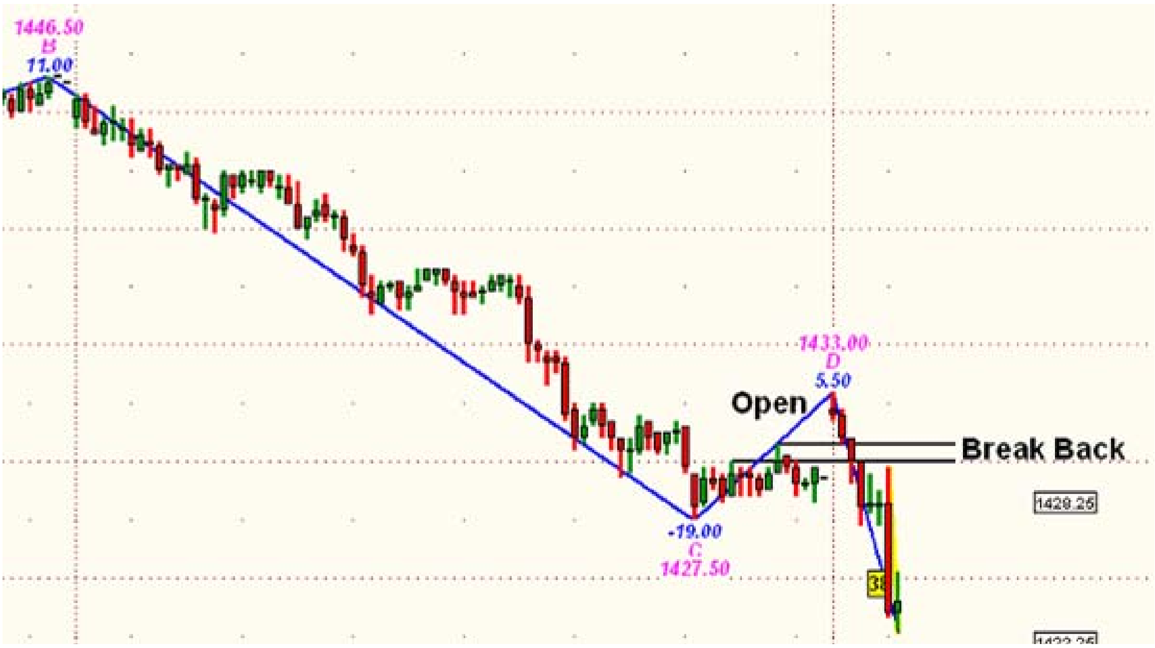
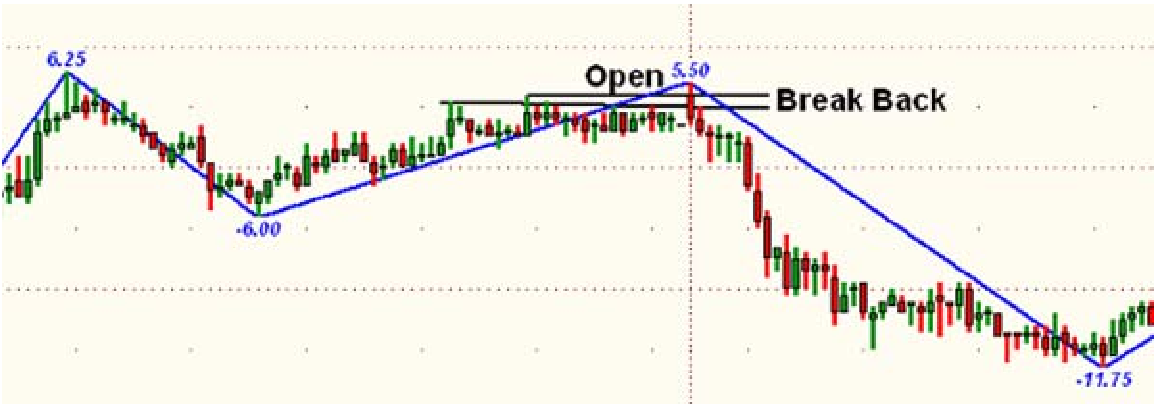
SMALLER DEGREE BREAK BACK SELL TRADES:

These will nearly always come at the start of the day after the market has been correcting upwards in the late afternoon and overnight Globex session.

It also helps when the larger or medium degree trend has been down from the previous day or more.





Here are a couple of examples. The first clue to the break back comes when you get two 5 minute RED CANDLES in a row from the opening price.

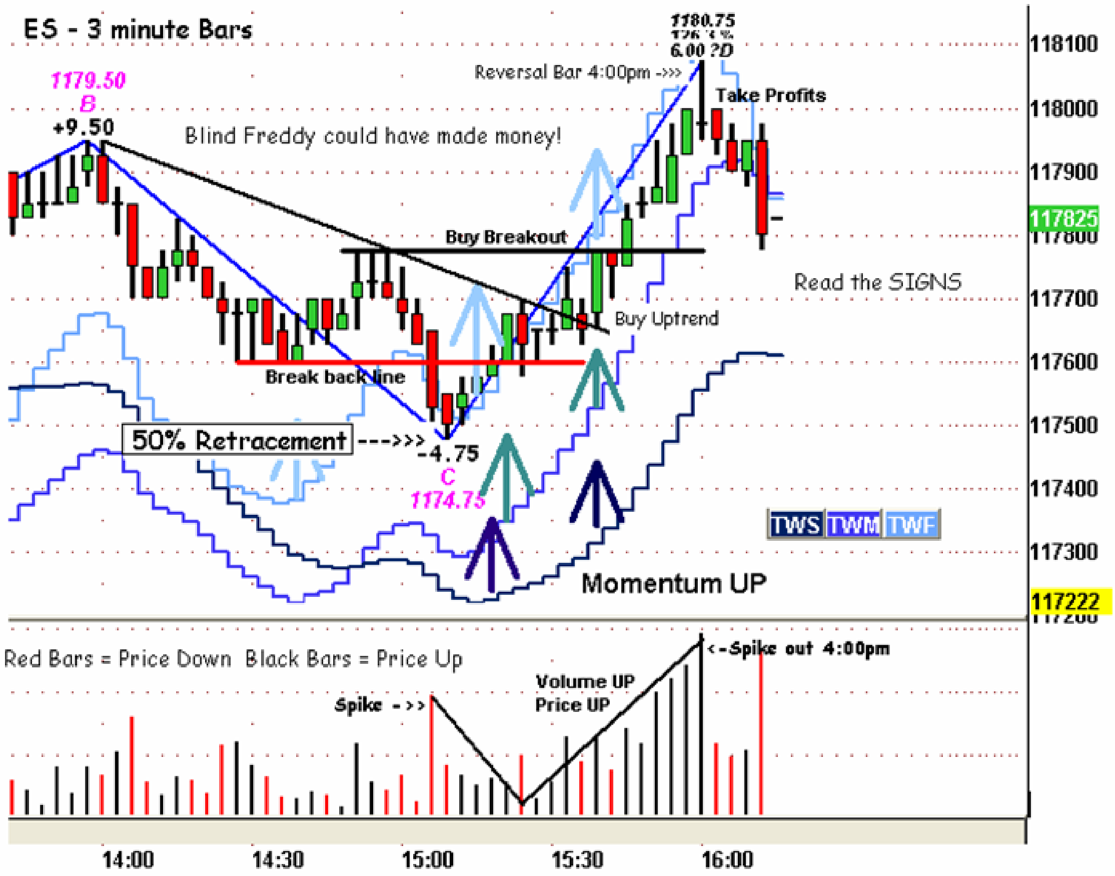
It's a low percentage sell opportunity because if it does not work out you can always reverse long if the market breaks back up through the OPENING PRINT.

Chapter 28

The Break Back Buy Trade:

The BREAK BACK buy is practically the same set up in reverse to the BREAK BACK sell.
The main criteria you should make sure of in advance is the market position is technically OVERSOLD and the progressing lows are not breaking out very far on the down moves.

Intraday BREAKBACKS are common place on W, V and N day types. They can be very effective places to enter a rebound trade after a sharp market sell off when short traders are covering positions.



The first clue to the change in trend comes when a continuation signal fails to attract more selling.

Basically the bears are losing interest and are covering positions because bulls buying value are outnumbering them. If the final low finishes on a spike of volume and then volume dies it could be a reversal sign.

It is always reasonable to expect a break back from new lows in a sharp sell off from a new high when you can justify support zones using the SPX, OEX and the MID to confirm.

The OEX and MID could be resisting the sell down due to technical reasons on their own charts.

Usually the break back buy trade is a better trade when the sell off is only of one or two days duration in an established uptrend of medium degree.

The thing to remember after any sharp sell down from any new high is that it is reasonable to expect a 50 or 61.8 retracement to form before any real larger degree confirmation of a complete change in trend has been established.

You must learn to adapt to the degrees of trend swings to really appreciate the market direction and strength.

These are things you will learn as your experience increases with time, they are not something that is rigid as it all depends a lot of the time if the market has some overriding external forces driving it. If the downward forces are evaporating the break back will be more certain.

There is always a mixture between fundamental and technical motivation present amongst traders who have the ability to push the market in one direction or the other.

It is imperative all the time to monitor the mood of the market as it is easily available by watching a Bloomberg cable, CNN cable or Fox news cable program during trading hours. You should never forget this.

When the news is not motivating any pressure on the market place it is more likely to trade technically than when there is some overwhelming news to activate more speculative interests in driving the market in one direction or the other.

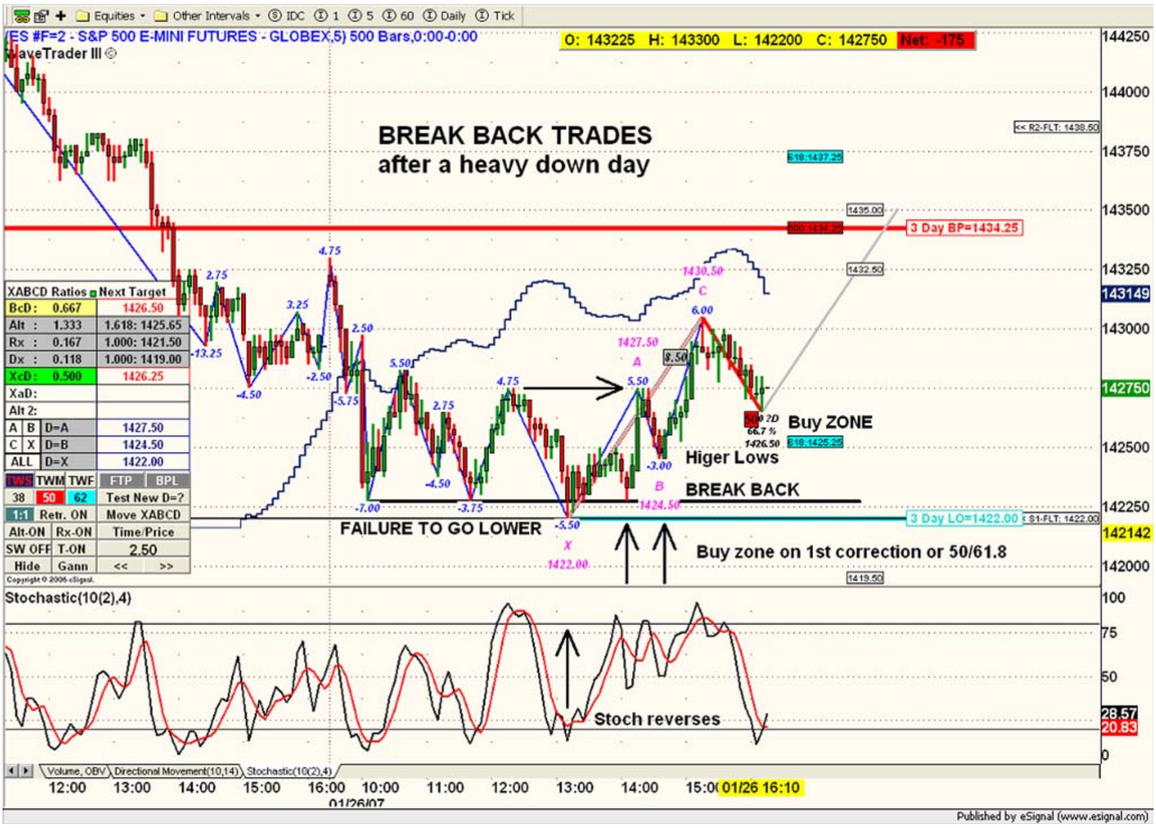
These things are not only a clue to what to expect they are the basic street sense things that you need to develop a knowledge of to make a complete success in this business.

The market moves up and down for a wide variety of reasons but the main one is because at certain points and times there are more people prepared to buy and also at other times more people prepared to sell. They may not get it right all the time but it is our job to evaluate if one side is arriving in greater strength to the other based on the price action at the time.

Enter trades on the first correction:

Generally after most medium degree market reversals there will be a small correction of either 50 to 61.8 of the first advance.

By the time this occurs most of the short term trend indicators will be confirming the change in direction.



XABCD Ratios	Next Target
BcD: 0.667	1426.50
Alt : 1.333	1.618: 1425.65
Rx : 0.167	1.000: 1421.50
Dx : 0.118	1.000: 1419.00
XcD: 0.500	1426.25
XaD:	
Alt 2:	
A B D=A	1427.50
C X D=B	1424.50
ALL D=X	1422.00

Equities • Other Intervals • IDC 1 5 60 Daily Tick
ES #F=2 - S&P 500 E-MINI FUTURES - GLOBEX,5) 500 Bars,0:00-0:00
WaveTrader III ©
O: 143225 H: 143300 L: 142200 C: 142750 Net: -175
BREAK BACK TRADES
after a heavy down day
3 Day BP=1434.25
1430.50
C
6.00
1427.50
A
5.50
Buy ZONE
Higer Lows
BREAK BACK
B
1424.50
FAILURE TO GO LOWER
X
1422.00
3 Day LO=1422.00
Buy zone on 1st correction or 50/61.8
Stochastic(10(2),4)
Stoch reverses
TWS TWM TWF FTP BPL
38 50 62 Test New D=?
1:1 Retr. ON Move XABCD
Alt-ON Rx-ON Time/Price
SW OFF T-ON 2.50
Hide Gann << >>
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144250
144000
143750
143500
143250
143149
143000
142750
142500
142250
142142
142000
100
75
50
28.57
20.83
0
Volume, OBV Directional Movement(10,14) Stochastic(10(2),4)
12:00 13:00 14:00 15:00 16:00 10:00 11:00 12:00 13:00 14:00 15:0 01/26 16:10
01/26/07
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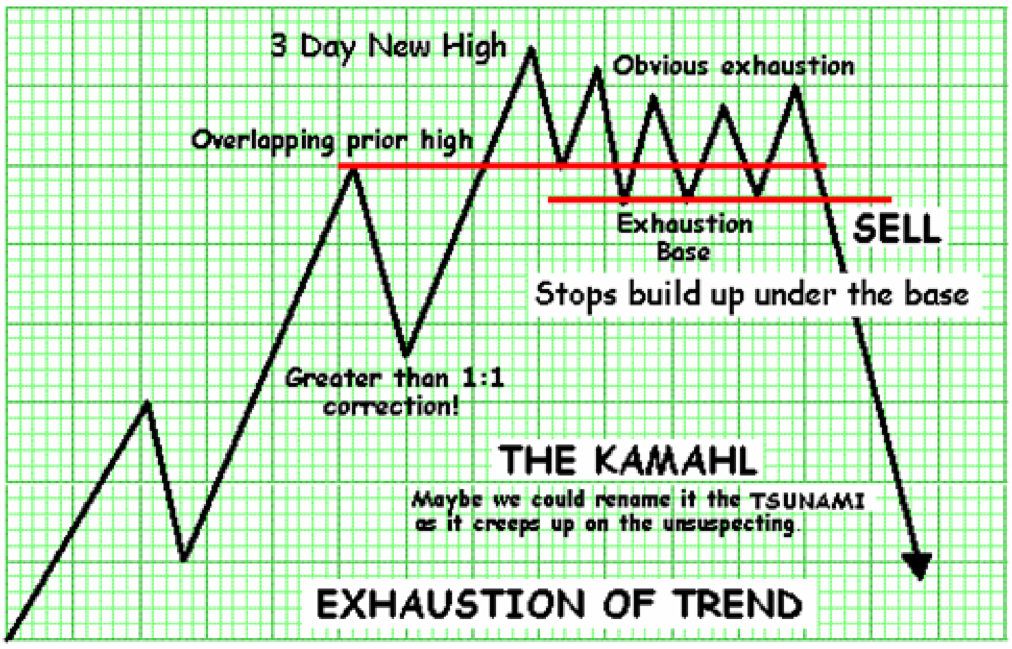
You are going to get a chance to enter one way or the other, either on a pullback of 50 to 61.8 or on a breakout.

The main thing you need to look at each time you think the market has changed trend on the day, is to review the goings on in the OEX and the MID for a confirmation.

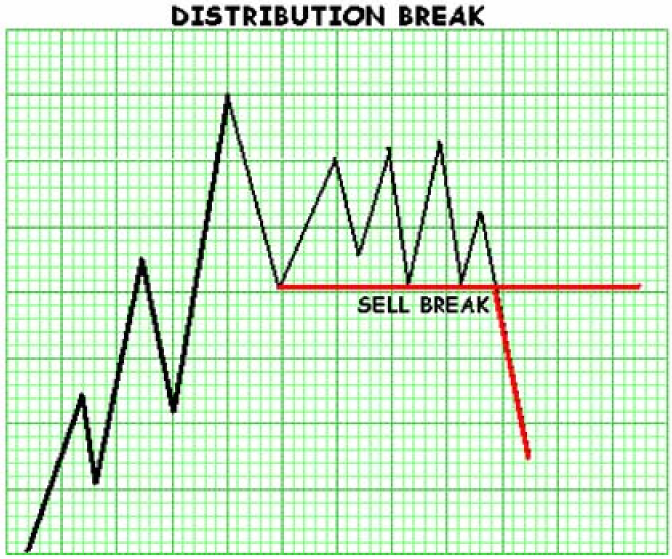
If you are more than satisfied then you can enter trades in the new direction; if you are not convinced just sit it out until your experience tells you the trade you are contemplating has a better than 70% chance of success.

Chapter 29

Distribution Breakout Sell:


3 Day New High
Obvious exhaustion
Overlapping prior high
Exhaustion Base
SELL
Stops build up under the base
Greater than 1:1 correction!
THE KAMAHL
Maybe we could rename it the TSUNAMI as it creeps up on the unsuspecting.
EXHAUSTION OF TREND

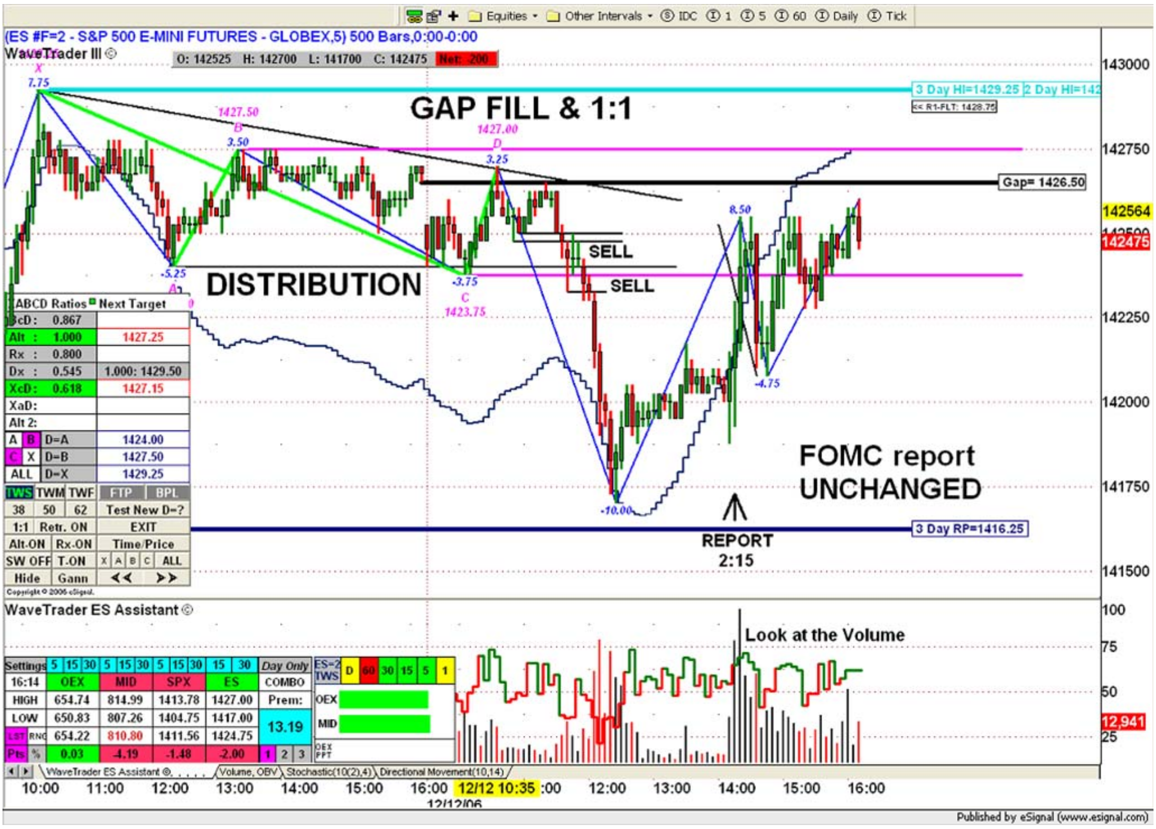
The Distribution Sell Trade


DISTRIBUTION BREAK
SELL BREAK

Anytime you see any pattern that looks remotely like this one on a 5 minute chart the break of the lows has a 90% chance of success as the longer the distribution goes on SELL stops build up below the support line and as soon as the buyers refuse to buy the 3rd or 4th test the market will crash through and feed off the sell stops located below it.

We can be so lucky and even a 3 or 4 point drop is "good wages".

Distribution implies the smart money is building up SHORT POSITIONS or the LONGS are slowly liquidating positions.



ABCD Ratios	Next Target
BcD: 0.867	
Alt : 1.000	1427.25
Rx : 0.800	
Dx : 0.545	1.000: 1429.50
XcD: 0.618	1427.15
XaD:	
Alt 2:	
A B D=A	1424.00
C X D=B	1427.50
ALL D=X	1429.25

Settings	5 15 30	5 15 30	5 15 30	15 30	Day Only
16:14	OEX	MID	SPX	ES	COMBO
HIGH	654.74	814.99	1413.78	1427.00	Prem:
LST RNG	654.22	810.80	1411.56	1424.75	13.19
LOW	650.83	807.26	1404.75	1417.00	
Pts %	0.03	-4.19	-1.48	-2.00	1 2 3

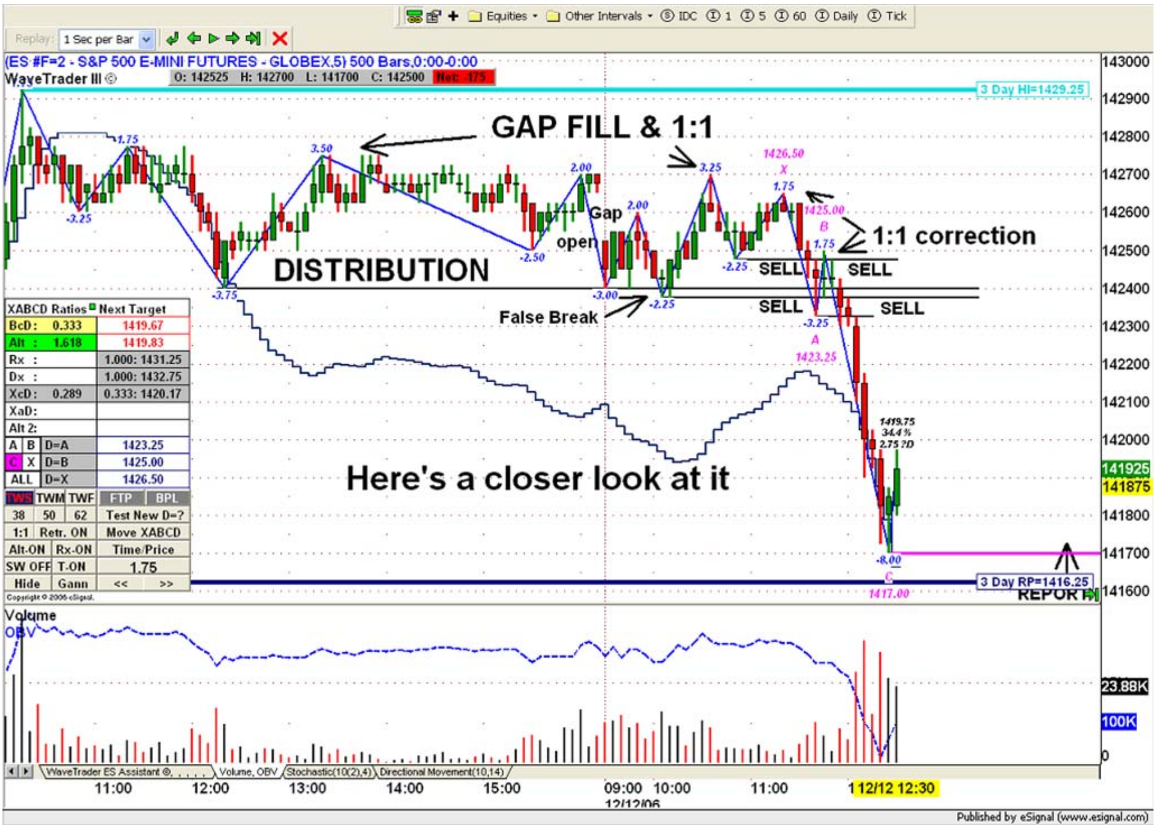
The logic for this trade today was fairly clear given that the market had spent most of yesterday sideways in a 3.50 point range. There was a FOMC statement due at 2:15pm.

To start with the market opened with a small GAP then worked itself sideways before dropping just below the prior lows by 1 tick (False Break low). From there it rallied to fill the gap on a 1:1 correction. The TWS stayed on an upward path until 11:30am and then a large range bar turned it down. The first break was a little sloppy with a small correction of 1.75 points (1:1) to retest the break. After that the market started to break down and volume started to build up as the stops were getting hit.

Basically speaking there was nothing to get you buying after the gap fill and the reversal on the 1:1 and 61.8, the OEX was doing a similar thing to this ES chart at the same time so it was in agreement with the SELL TRADE.

All one needs to do in these circumstances is to find a level where you know it will cause the weaker side to run for cover.

Here's a closer look at it:



XABCD Ratios	Next Target
BcD: 0.333	1419.67
Alt : 1.618	1419.83
Rx :	1.000: 1431.25
Dx :	1.000: 1432.75
XcD: 0.289	0.333: 1420.17
XaD:	
Alt 2:	
A B D=A	1423.25
C X D=B	1425.00
ALL D=X	1426.50

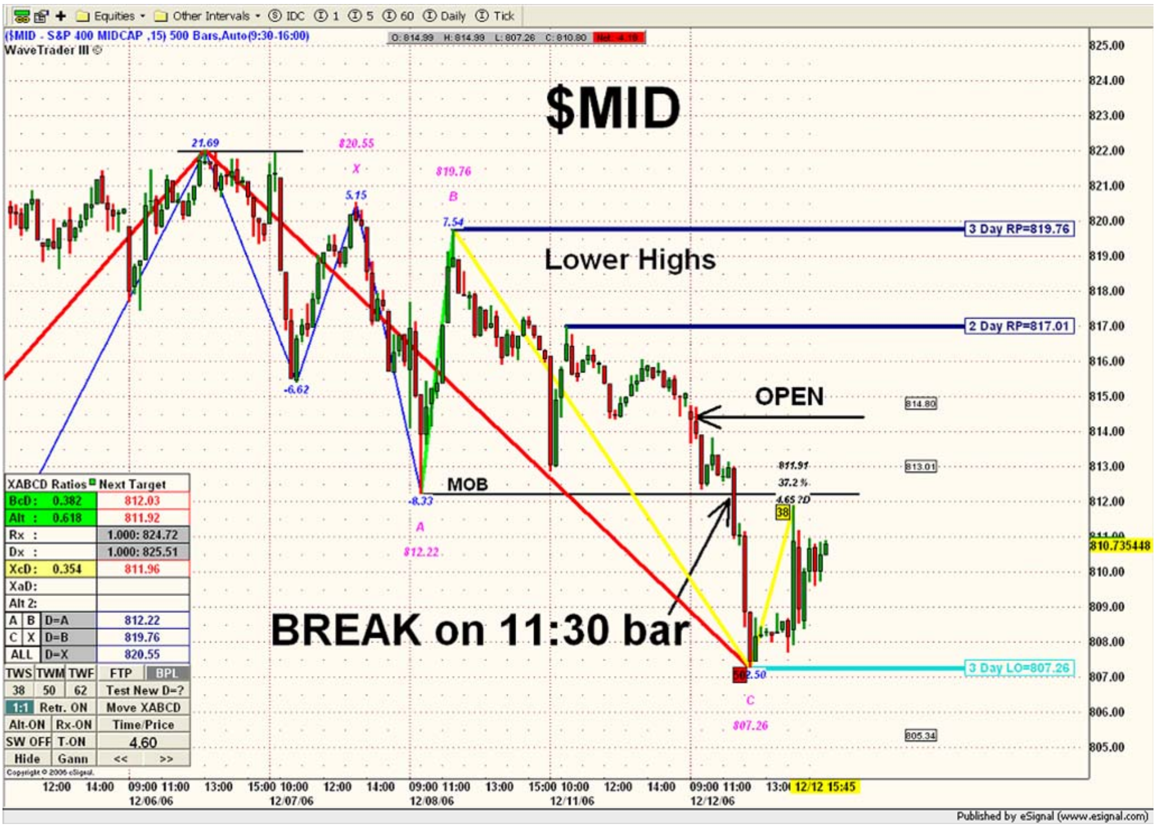
This chart shows the little 1:1 of 1.75 just after the first breakdown SELL.

There are a few things that led up to the breakdown that should be noted if you want to see why it was a SELL. Starting from the high point the day before the price action was one of lower highs. On each of the progressive lows which broke slightly there was nothing consistent to lead you to believe the market was making a low of any substance. If indeed the market had been accumulating it would have been making higher highs not lower highs.

Now that this is clearly explained I will show you the $MID and the $OEX charts at the time.

If the following two charts don't paint a clear picture for you, nothing will. Eventually you will understand why you need the WT-ES Assistant if you are trading the S&P 500 Indices.

A picture speaks a thousand words.



XABCD Ratios	Next Target
BcD: 0.382	812.03
Alt : 0.618	811.92
Rx :	1.000: 824.72
Dx :	1.000: 825.51
XcD: 0.354	811.96
XaD:	
Alt 2:	
A B D=A	812.22
C X D=B	819.76
ALL D=X	820.55

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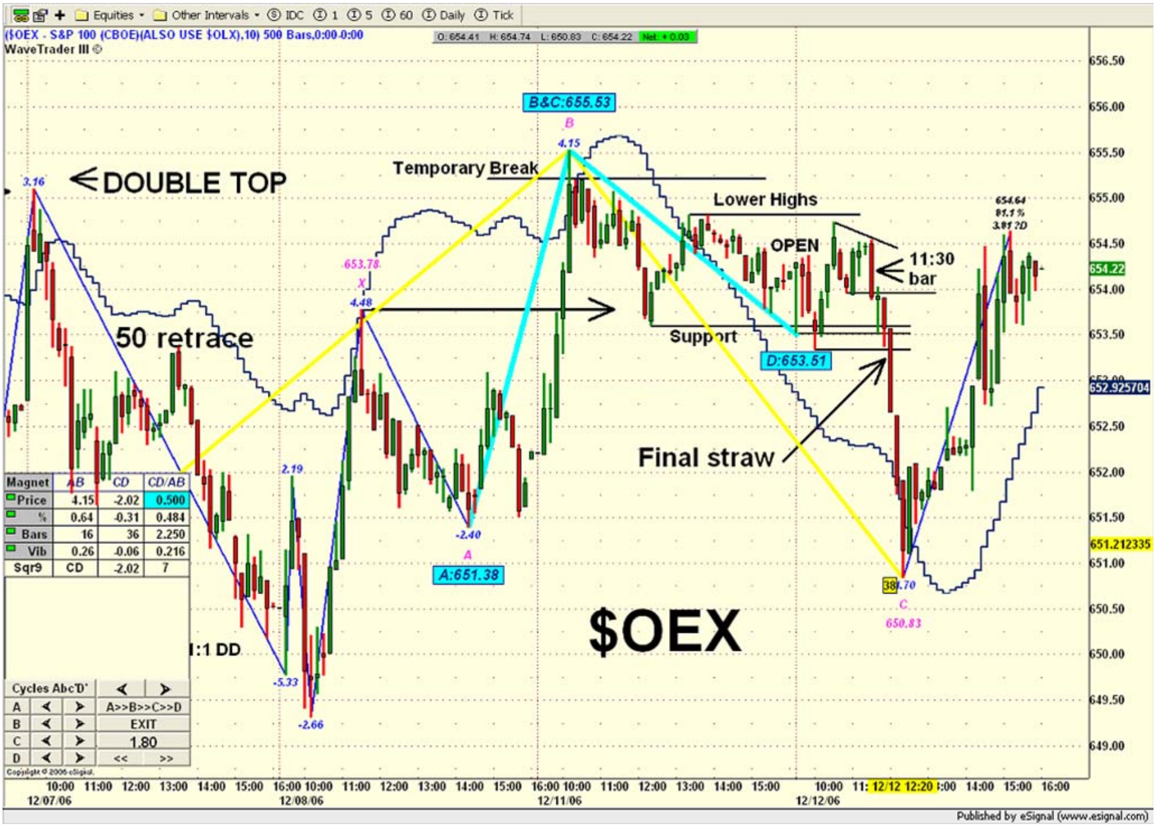

Magnet	AB	CD	CD/AB
Price	4.15	-2.02	0.500
%	0.64	-0.31	0.484
Bars	16	36	2.250
Vib	0.26	-0.06	0.216
Sqr9	CD	-2.02	7

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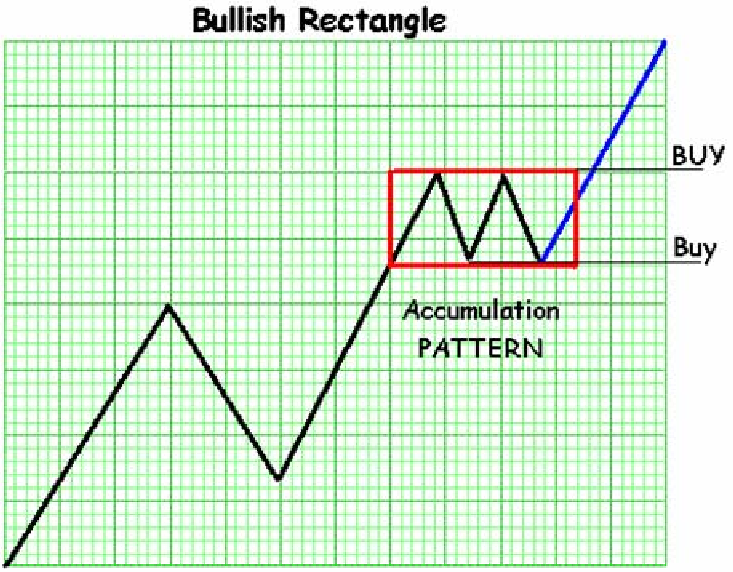
Chapter 30

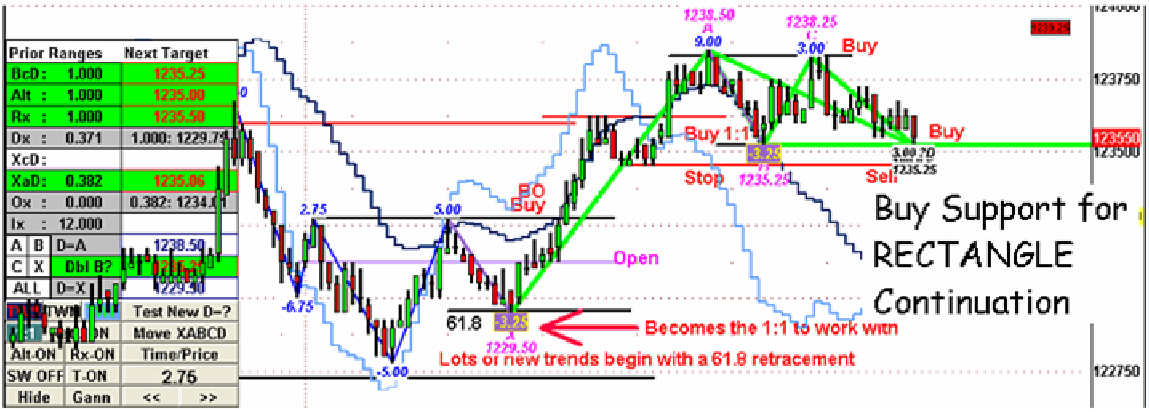
The Accumulation Breakout Buy Trade:

This trade is generally best recognized when the short term pattern unfolds from a low in an obvious 3 wave sequence and the accumulation phase is turning into a wave 4. The obvious expectation is for a wave 5 to unfold out of it and take the market to a higher high.



The Rectangle that forms as a 4th wave accumulation pattern is a guaranteed buying opportunity on a break to new highs.

The buy at the lower end is not guaranteed on the second bottom but if it makes a triple bottom you should buy it there with a stop and reverse below the rectangle.

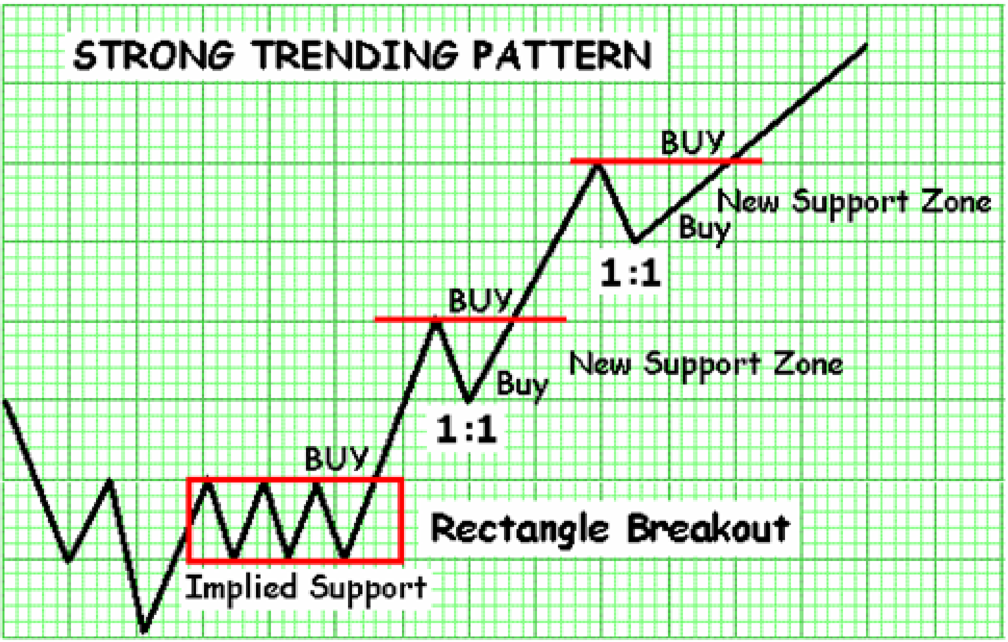


Prior Ranges		Next Target
BcD:	1.000	1235.25
Alt :	1.000	1235.00
Rx :	1.000	1235.50
Dx :	0.371	1.000: 1229.75
XcD:		
XaD:	0.382	1235.06
Ox :	0.000	0.382: 1234.01
Ix :	12.000	
A B	D=A	1238.50
C X	Dbl B?	1235.25
ALL	D=X	1229.50

The only thing that might throw you off in a pattern like this is the DIVERGENCE in the SLOW TREND WAVE. But so long as the geometry remains intact without overbalancing the trade is valid.

RECTANGLES up from a LOW imply ACCUMULATION:

They can also occur early in a new move as well as later as in the previous example.



This example pattern is more likely to occur over a two day period on a 5 minute chart. The new day would most likely open somewhere within the RECTANGLE PATTERN; and as the morning trade commences it may begin to receive some good news by way of economic reports which prompts the breakout. As the day progresses it becomes more bullish as confirmed by the 1:1 corrections.

Before any new day commences you should examine the prior low for any evidence of a medium or larger degree geometric event such as 1:1, 38.2, 50 or 61.8 which could influence a change in sentiment technically. If the technical's are clearly there then any good news that hits the market will have a more receptive response.

Once the ball is rolling the move will feed on itself as the losers are forced to bail out or reverse.

Always bear in mind that most times the trend will come and go in spurts as one side does not remain in control as infinitum, nevertheless with any solid trend the 1:1's on the day will indicate if it is still intact and likely to extend as the day goes on.

Chapter 31

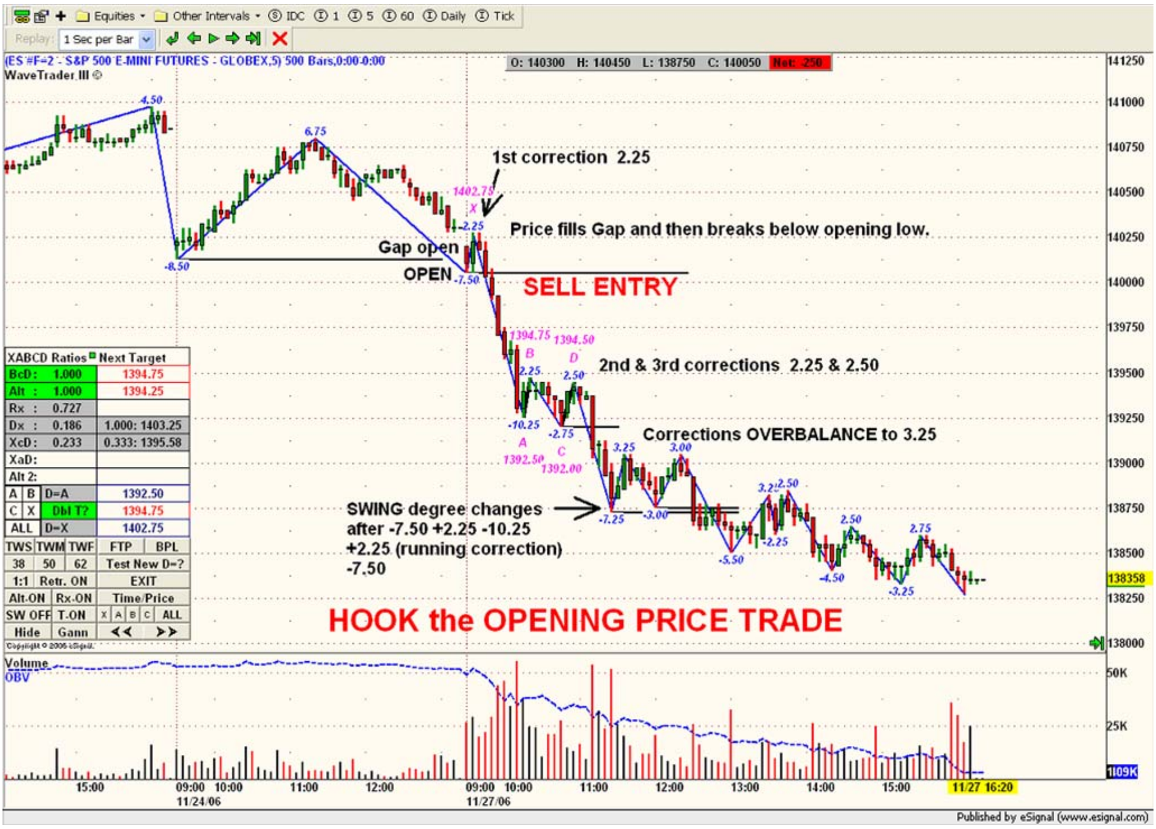
Hook the Opening Price Trade

Each day there is a possibility to enter short or long pretty much within 10 – 30 minutes or so of the open.

There are several important things you need to consider on the opening of the day session before you decide to take the opening hook trade. Nevertheless when all the components are present that can help the trade become a winner your chances of success are improved immensely.

The best way to play the hook trade is to only use it to enter in the direction of the two and three day swing direction if those 2 & 3 day swings are in the right position relative to their BALANCE POINT levels.

Also, if the market has opened with a gap that under normal circumstances needs to be filled before the market will go on then a hook back through the open print after filling a small gap will give you a trigger point to take the trade.


Equities
Other Intervals
IDC
1
5
60
Daily
Tick
Replay:
1 Sec per Bar
(ES #F=2 - S&P 500 E-MINI FUTURES - GLOBEX,5) 500 Bars,0:00-0:00
WaveTrader III ©
O: 140300 H: 140450 L: 138750 C: 140050 Net: 250
1st correction 2.25
Price fills Gap and then breaks below opening low.
Gap open
OPEN
SELL ENTRY
2nd & 3rd corrections 2.25 & 2.50
Corrections OVERBALANCE to 3.25
SWING degree changes after -7.50 +2.25 -10.25 +2.25 (running correction) -7.50
HOOK the OPENING PRICE TRADE
4.50
-8.50
6.75
1402.75
X
2.25
-7.50
1394.75
B
2.25
1394.50
D
2.50
-10.25
A
1392.50
-2.75
C
1392.00
3.25
-7.25
-3.00
3.00
-5.50
3.25
2.50
-2.25
2.50
-4.50
2.75
-3.25
141250
141000
140750
140500
140250
140000
139750
139500
139250
139000
138750
138500
138358
138250
138000
Volume
OBV
50K
25K
109K
15:00
09:00
10:00
11/24/06
11:00
12:00
09:00
10:00
11/27/06
11:00
12:00
13:00
14:00
15:00
11/27 16:20
TWS
TWM
TWF
FTP
BPL
38
50
62
Test New D=?
1:1
Retr. ON
EXIT
Alt-ON
Rx-ON
Time/Price
SW OFF
T-ON
X
A
B
C
ALL
Hide
Gann
<<
>>
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XABCD Ratios	Next Target
BcD: 1.000	1394.75
Alt : 1.000	1394.25
Rx : 0.727	
Dx : 0.186	1.000: 1403.25
XcD: 0.233	0.333: 1395.58
XaD:	
Alt 2:	
A B D=A	1392.50
C X Dbl T?	1394.75
ALL D=X	1402.75

This is an example of a ONE TYPE down day; there was one correction of 3.50 points towards midday as the morning traders quit for the day, all the rest were less. You could describe this particular pattern as a WATERFALL DAY.

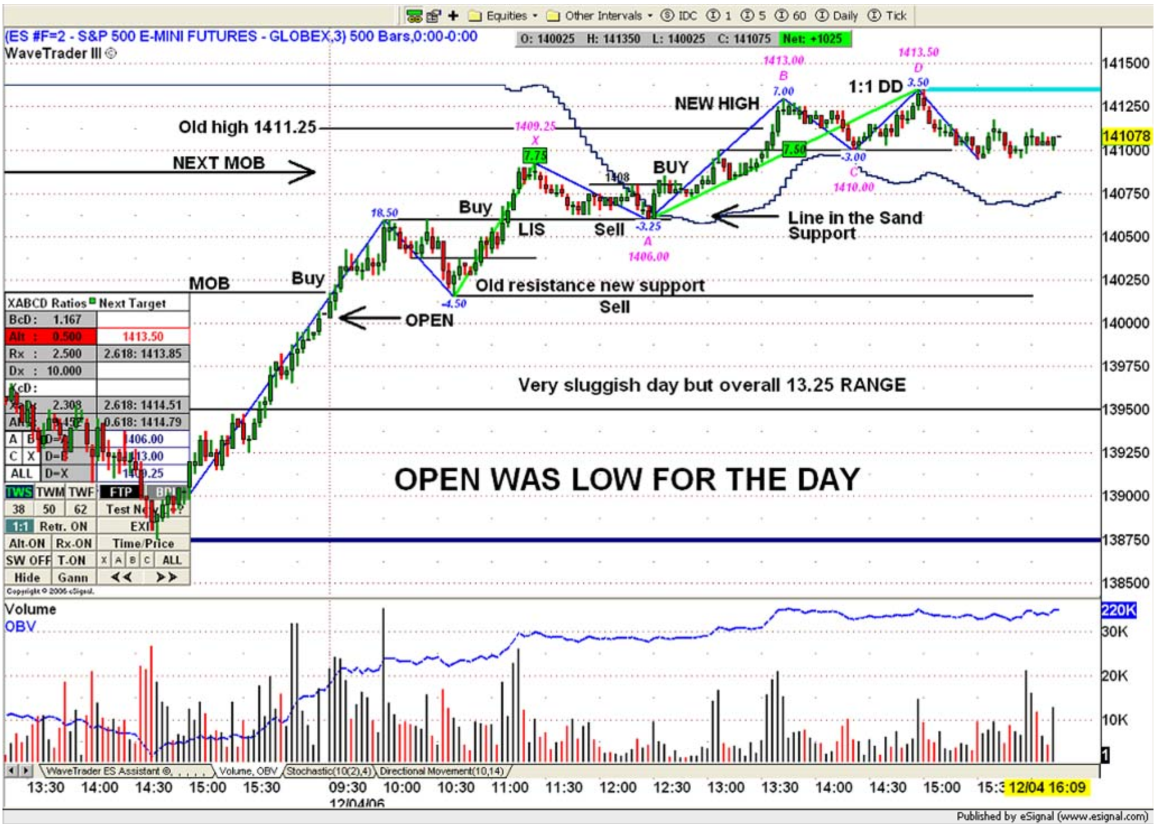
It was a Monday and the prior day was a half day trading session between Thanksgiving and the weekend, nevertheless the day started off in a weak position and it didn't take much to send it on its way.

The half day prior opened on a gap low and rallied for 2 hours until it filled the gap. Once the gap was filled the market drifted down until the close at 1:15pm.

You should learn about gap behavior as it is a useful tool when a gap is filled and the market heads off the other way.

The opening price:

The opening print is perhaps the most important price level of the day, if you watch the volume in the first 30 minutes you will see there are lots of people making trading decisions around the opening print.



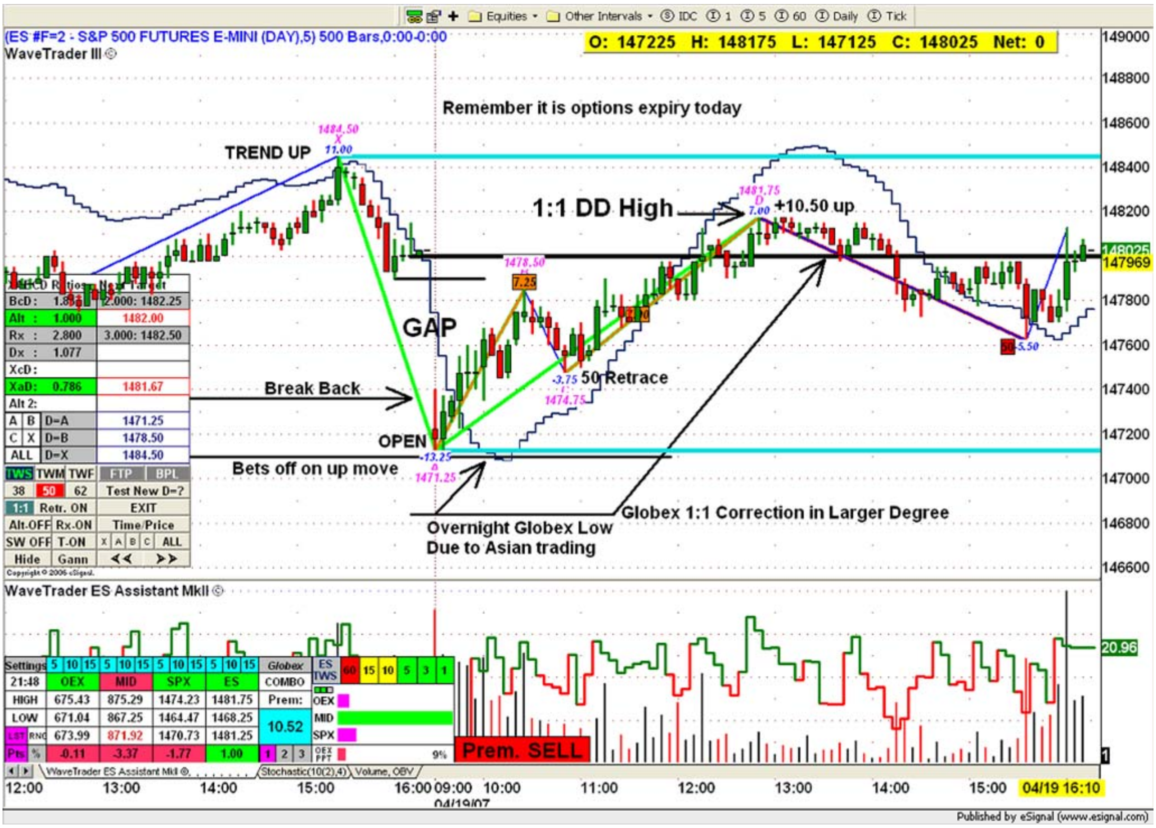
Whichever direction the market goes after the open and depending how far it goes the opening price will act as the first support or resistance level of the day.

GAP left on the OPEN:

Today the ES had been down in the overnight market due to the Asian influence and a sharp decline in Chinese stocks. Of course this had nothing to do with the US market and US fundamentals had not changed overnight.

The Globex session was already in a slight recovery when Wall Street opened.

One big issue was the ES was finding support after testing a larger degree 1:1 correction on a 38.2 from 6 days back.



ABCD Ratios		Next Target
BcD:	1.8[illegible]	2.000: 1482.25
Alt :	1.000	1482.00
Rx :	2.800	3.000: 1482.50
Dx :	1.077	
XcD:		
XaD:	0.786	1481.67
Alt 2:		
A B	D=A	1471.25
C X	D=B	1478.50
ALL	D=X	1484.50

Copyright © 2006 eSignal.

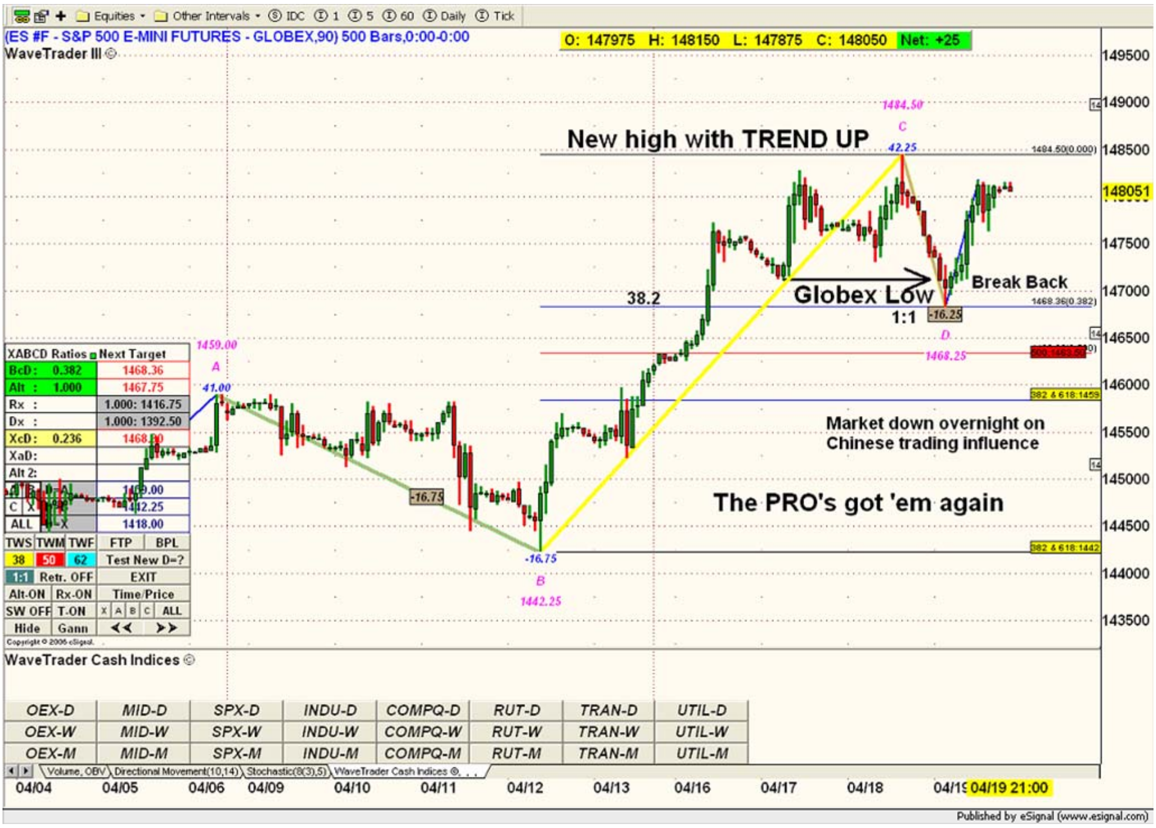
Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
21:48	OEX	MID	SPX	ES	COMBO
HIGH	675.43	875.29	1474.23	1481.75	Prem:
LOW	671.04	867.25	1464.47	1468.25	10.52
LST RNG	673.99	871.92	1470.73	1481.25	
Pts %	-0.11	-3.37	-1.77	1.00	1 2 3

Another interesting point about today was the OPTIONS EXPIRY and the ES had only made a brand new high the day before. You could have bought on the money puts for virtually nothing and bought futures against them. Basically a no risk situation if the market rallied to fill the gap.

Well guess what?

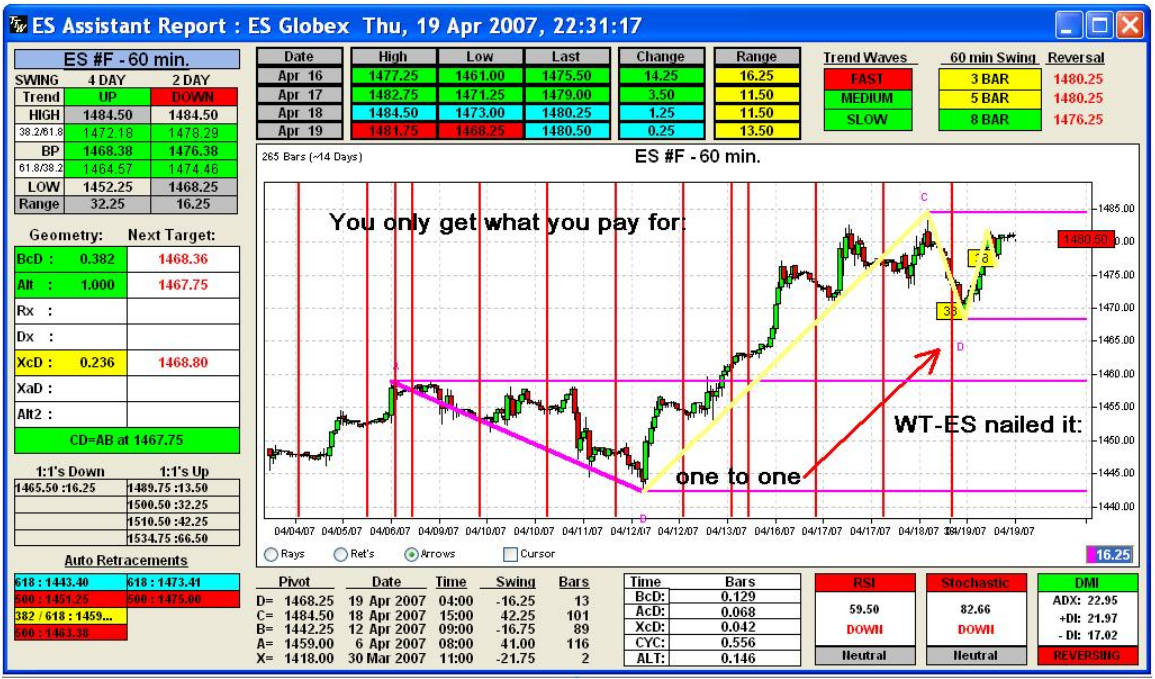
It is not who you know – it is what you know that determines if you are going to read the market correctly.

Think about it, the uninformed were thinking sell, the informed were buying.



XABCD Ratios	Next Target
BcD : 0.382	1468.36
Alt : 1.000	1467.75
Rx :	1.000: 1416.75
Dx :	1.000: 1392.50
XcD : 0.236	1468.80
XaD:	
Alt 2:	
A B D-A	1459.00
C X	1442.25
ALL	1418.00

I continually tell people to think about what they are doing; some listen others don't and they pay the price for being lazy or not looking the right way.


ES Assistant Report : ES Globex Thu, 19 Apr 2007, 22:31:17

ES #F - 60 min.

SWING	4 DAY	2 DAY
Trend	UP	DOWN
HIGH	1484.50	1484.50
38.2/61.8	1472.18	1478.29
BP	1468.38	1476.38
61.8/38.2	1464.57	1474.46
LOW	1452.25	1468.25
Range	32.25	16.25

Geometry:	Next Target:
BcD : 0.382	1468.36
Alt : 1.000	1467.75
Rx :	
Dx :	
XcD : 0.236	1468.80
XaD :	
Alt2 :	

CD=AB at 1467.75

1:1's Down	1:1's Up
1465.50 :16.25	1489.75 :13.50
	1500.50 :32.25
	1510.50 :42.25
	1534.75 :66.50

Auto Retracements

618 : 1443.40	618 : 1473.41
500 : 1451.25	500 : 1475.00
382 / 618 : 1459...	
500 : 1463.38	

Date	High	Low	Last	Change	Range
Apr 16	1477.25	1461.00	1475.50	14.25	16.25
Apr 17	1482.75	1471.25	1479.00	3.50	11.50
Apr 18	1484.50	1473.00	1480.25	1.25	11.50
Apr 19	1481.75	1468.25	1480.50	0.25	13.50

Trend Waves	60 min Swing	Reversal
FAST	3 BAR	1480.25
MEDIUM	5 BAR	1480.25
SLOW	8 BAR	1476.25

265 Bars (~14 Days)
ES #F - 60 min.
You only get what you pay for:
C
A
B
D
38
38
1480.50
WT-ES nailed it:
one to one
1485.00
1475.00
1470.00
1465.00
1460.00
1455.00
1450.00
1445.00
1440.00
04/04/07 04/05/07 04/06/07 04/09/07 04/10/07 04/10/07 04/11/07 04/12/07 04/12/07 04/13/07 04/16/07 04/17/07 04/17/07 04/18/07 04/19/07 04/19/07
○ Rays ○ Ret's ● Arrows ☐ Cursor
16.25

Pivot		Date	Time	Swing	Bars
D=	1468.25	19 Apr 2007	04:00	-16.25	13
C=	1484.50	18 Apr 2007	15:00	42.25	101
B=	1442.25	12 Apr 2007	09:00	-16.75	89
A=	1459.00	6 Apr 2007	08:00	41.00	116
X=	1418.00	30 Mar 2007	11:00	-21.75	2

Time	Bars
BcD:	0.129
AcD:	0.068
XcD:	0.042
CYC:	0.556
ALT:	0.146

RSI	Stochastic	DMI
59.50 DOWN	82.66 DOWN	ADX: 22.95 +DI: 21.97 - DI: 17.02
Neutral	Neutral	REVERSING

Chapter 32

The Globex High / Low and Gap factors:

Assessing the S&P GLOBEX activity over night and especially in early morning trading is an imperative part of your daily preparation.

The Globex High or Low from the overnight trading is very important if it falls outside the previous ES days trading range. The European markets begin their day session hours earlier and they trade many of the US Stocks as Deposit Receipts. The out of Wall Street hours trading in these stocks can have a profound influence on the Wall Street opening.

It may well be that the Globex high or low has reversed on or broken through a GEOMETRIC LEVEL of MEDIUM or LARGER DEGREE.

For instance if the market had been trending up in the previous day session and the Globex continued to do so overnight and then made some noticeable change in direction down; you would need to be aware of this as you go into the day session.

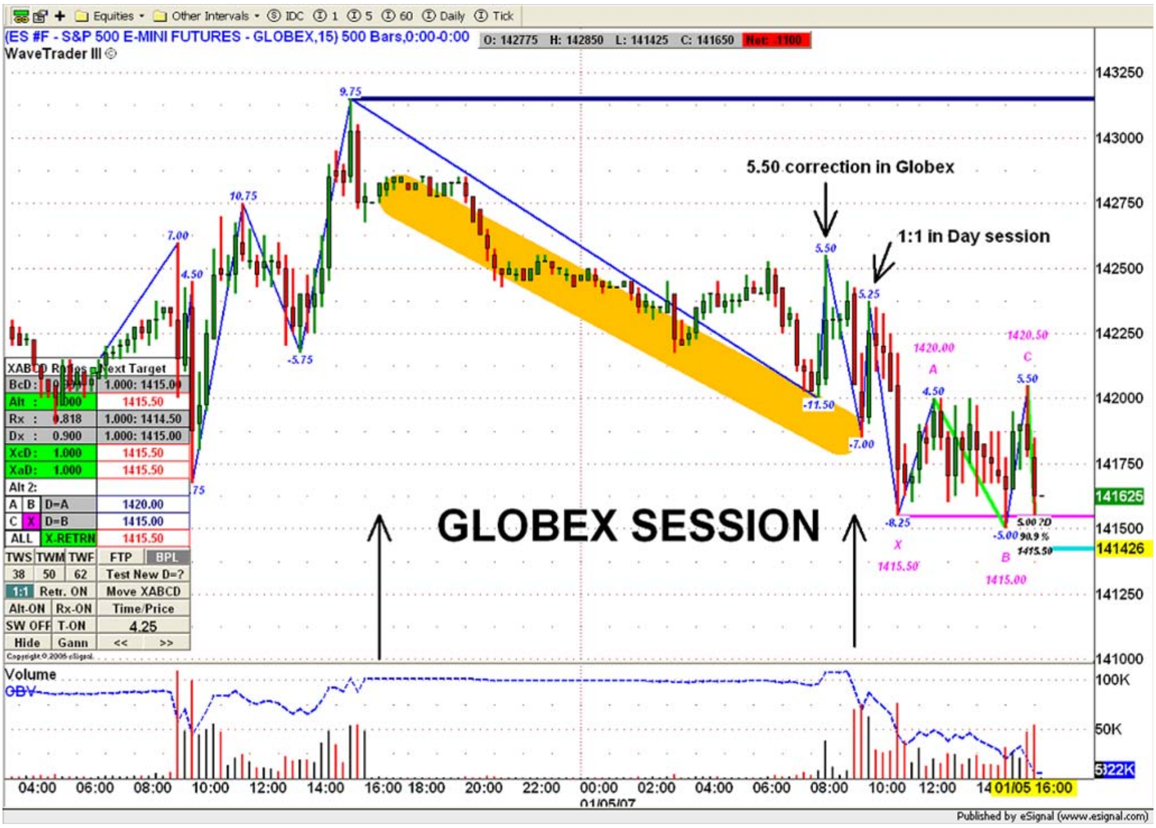
I have seen it happen on an abundance of times where the day session never actually goes to the same extreme level reached by the Globex in the previous session.

I have also witnessed many, many times where the Globex high becomes resistance in the next day session or the Globex low becomes support and the day traders buy or sell off those levels.

GLOBEX TRADING HOURS:

- Sunday 6pm ET through to Monday morning 9:30am.
- Week days 4:30pm through to the next morning 9:30am.
- No trading between market day close on Friday until 6:00pm Sunday evening.
- The Globex also closes for 30 minutes each night between 11:30pm and midnight.

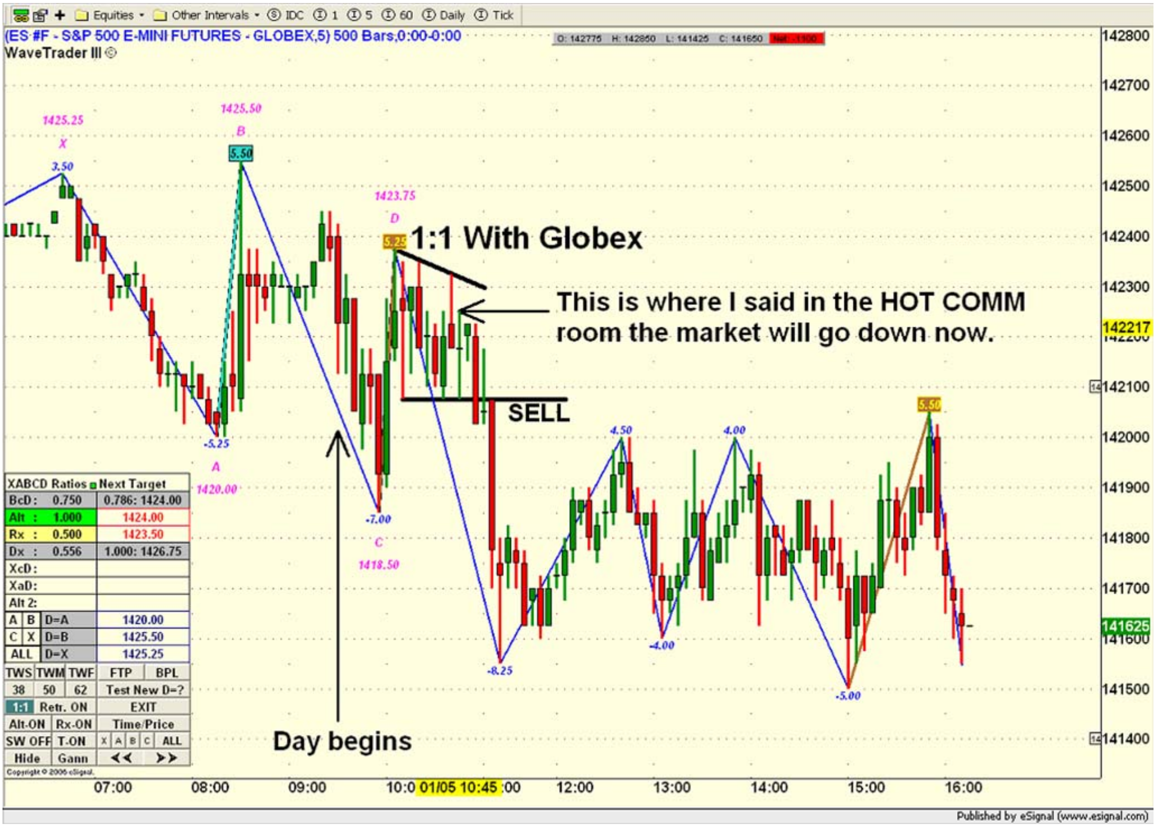
Other things in the day session will often relate to things that happened in the Globex if the Globex session has been excessively active.


(ES #F - S&P 500 E-MINI FUTURES - GLOBEX,15) 500 Bars,0:00-0:00
WaveTrader III
O: 142775 H: 142850 L: 141425 C: 141650 Net: -1100
Volume
OBV
04:00 06:00 08:00 10:00 12:00 14:00 16:00 18:00 20:00 22:00 00:00 02:00 04:00 06:00 08:00 10:00 12:00 14 01/05 16:00
01/05/07
Published by eSignal (www.esignal.com)

5.50 correction in Globex

1:1 in Day session

GLOBEX SESSION


(ES #F - S&P 500 E-MINI FUTURES - GLOBEX,5) 500 Bars,0:00-0:00
WaveTrader III
07:00 08:00 09:00 10:0 01/05 10:45 :00 12:00 13:00 14:00 15:00 16:00
Published by eSignal (www.esignal.com)

1:1 With Globex

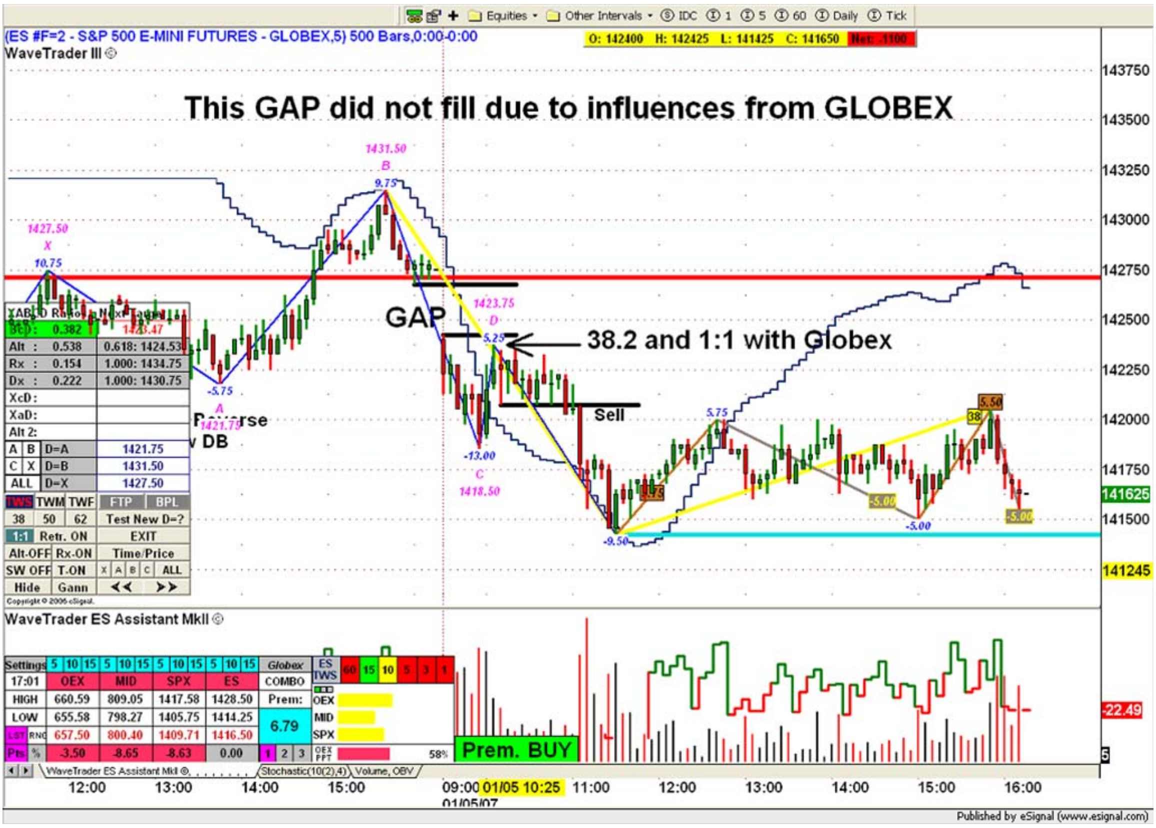
This is where I said in the HOT COMM room the market will go down now.

SELL

Day begins

GAPS:

Normally you can expect most gaps to be filled on the day, nevertheless some days the Globex session can have an overpowering influence which you need to take into account.



XABCD Ratios	Next Target
BcD: 0.382	1423.47
Alt : 0.538	0.618: 1424.53
Rx : 0.154	1.000: 1434.75
Dx : 0.222	1.000: 1430.75
XcD:	
XaD:	
Alt 2:	
A B D=A	1421.75
C X D=B	1431.50
ALL D=X	1427.50

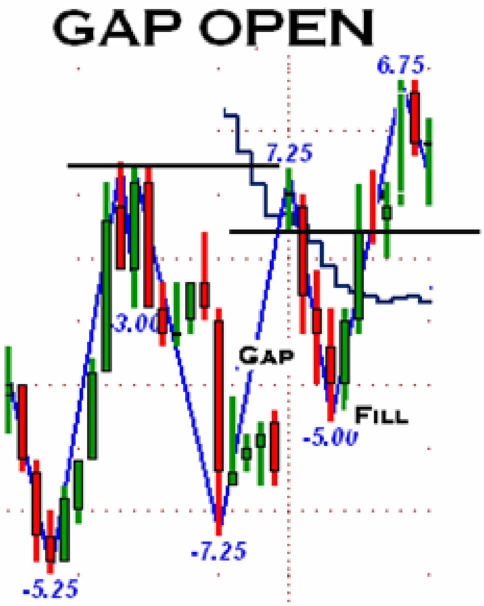
Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
17:01	OEX	MID	SPX	ES	COMBO
HIGH	660.59	809.05	1417.58	1428.50	Prem:
LOW	655.58	798.27	1405.75	1414.25	6.79
LST RNG	657.50	800.40	1409.71	1416.50	
Pts %	-3.50	-8.65	-8.63	0.00	1 2 3

GAPS can have a big influence on the daily trading activity early in the day or at other times in the afternoon session.

Most professional traders believe that gaps need to be filled and will often trade in the direction of the gap if everything looks to be in their favor. When the gap is filled they will often take profits right on the gap fill level and the market will reverse direction.

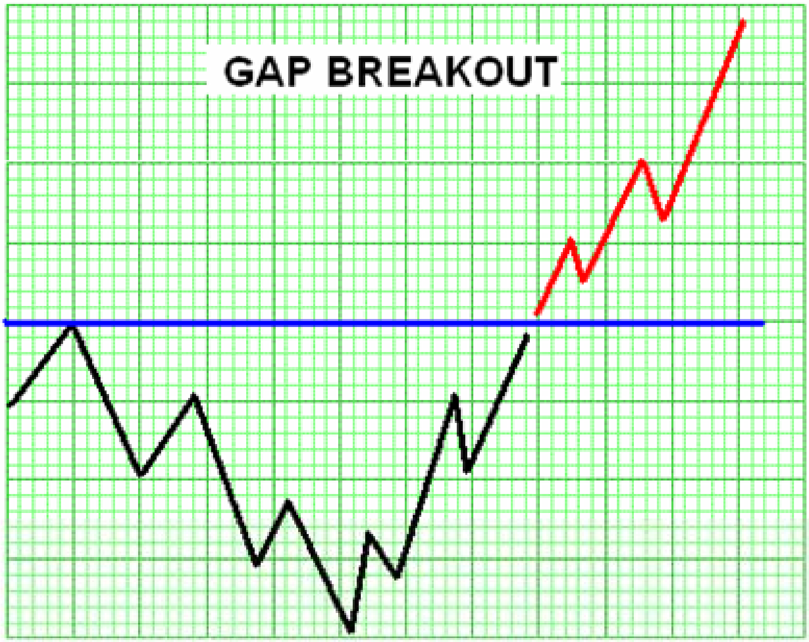
Say that the trend is down and the market opens with a small gap down! Most times before the trend down will continue the traders will try and fill the gap and then sell it off. Nevertheless if the trend the day before was up and you opened with a gap down they would mostly fill the gap and keep on buying.

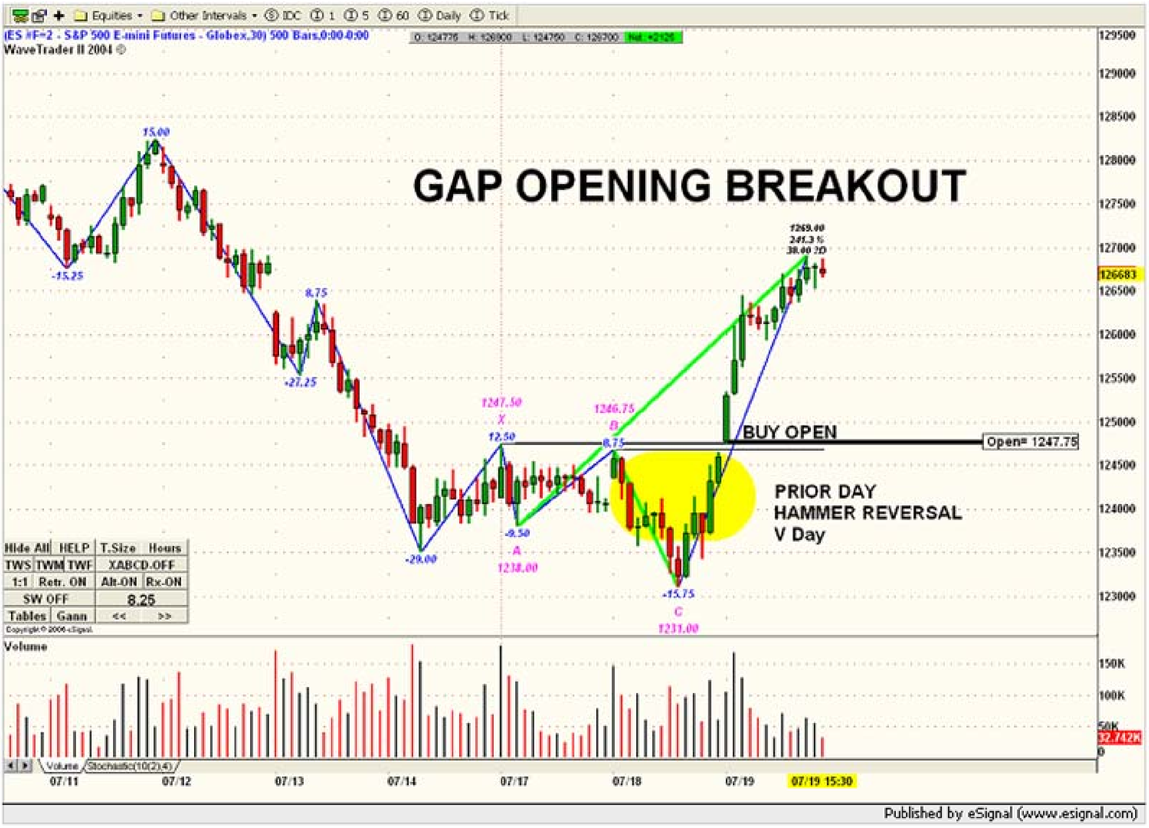
If the gap fill level is on a geometric level with the smaller or small degree swings it will have even more influence on what the traders do.



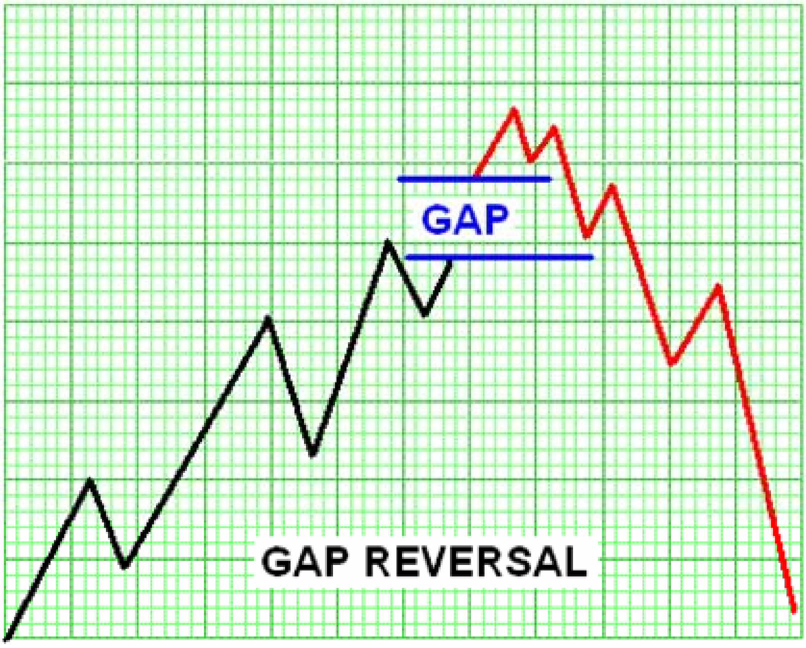
GAP BREAKOUTS:

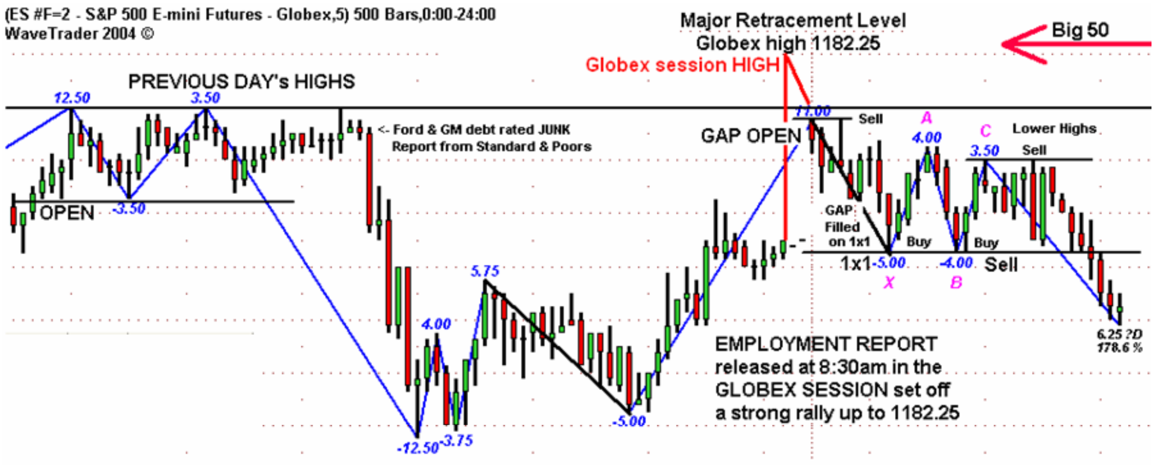
Gap breakouts after a strong reversal day will seldom get filled that trading day. But they will become targets over the next day or so if the breakout move loses momentum.




Equities
Other Intervals
IDC
1
5
60
Daily
Tick
(ES #F=2 - S&P 500 E-mini Futures - Globex,30) 500 Bars,0:00-0:00
WaveTrader II 2004
O: 124775 H: 126900 L: 124750 C: 126700
GAP OPENING BREAKOUT
15.00
-15.25
8.75
-27.25
-29.00
1247.50
X
12.50
-9.50
A
1238.00
1246.75
B
8.75
-15.75
C
1231.00
1269.00
241.3 %
38.00 2D
BUY OPEN
Open= 1247.75
PRIOR DAY
HAMMER REVERSAL
V Day
Hide All
HELP
T.Size
Hours
TWS
TWM
TWF
XABCD-OFF
1:1
Retr. ON
Alt-ON
Rx-ON
SW OFF
8.25
Tables
Gann
<<
>>
Volume
Stochastic(10(2),4)
129500
129000
128500
128000
127500
127000
126683
126500
126000
125500
125000
124500
124000
123500
123000
150K
100K
50K
32.742K
0
07/11
07/12
07/13
07/14
07/17
07/18
07/19
07/19 15:30
Published by eSignal (www.esignal.com)

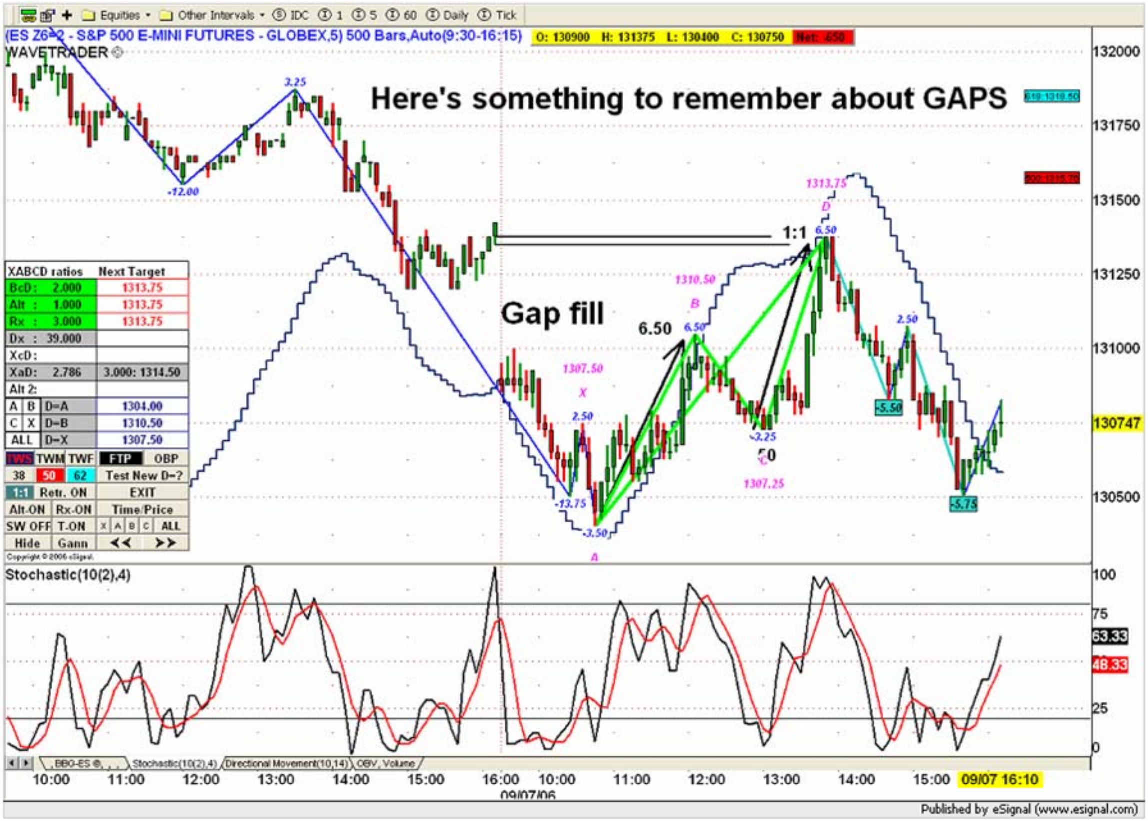
EXHAUSTION GAPS (gap reversals):


GAP
GAP REVERSAL



There are times when a Gap can form without making new day session levels from the previous day; this example was when the high was made in the Globex session. The Globex reversed on a 50 Retrace and the day session opened lower than the prior day high.

GAP PSYCHOLOGY:


Equities
Other Intervals
IDC
1
5
60
Daily
Tick
(ES Z6=2 - S&P 500 E-MINI FUTURES - GLOBEX,5) 500 Bars,Auto(9:30-16:15)
O: 130900 H: 131375 L: 130400 C: 130750 Net: 650
WAVETRADER ©
Here's something to remember about GAPS
3.25
-12.00
1313.75
D
1:1
6.50
1310.50
B
Gap fill
6.50
6.50
1307.50
X
2.50
-13.75
-3.50
A
-3.25
C
1307.25
2.50
-5.50
-5.75
132000
131750
131500
131250
131000
130747
130500
Stochastic(10(2),4)
100
75
63.33
48.33
25
0
BBO-ES
Stochastic(10(2),4)
Directional Movement(10,14)
OBV, Volume
10:00
11:00
12:00
13:00
14:00
15:00
16:00
10:00
11:00
12:00
13:00
14:00
15:00
09/07 16:10
09/07/06
Published by eSignal (www.esignal.com)

XABCD ratios	Next Target
BcD: 2.000	1313.75
Alt : 1.000	1313.75
Rx : 3.000	1313.75
Dx : 39.000	
XcD:	
XaD: 2.786	3.000: 1314.50
Alt 2:	
A B D=A	1304.00
C X D=B	1310.50
ALL D=X	1307.50

TWS TWM TWF FTP OBP
38 50 62 Test New D=?
1:1 Retr. ON EXIT
Alt-ON Rx-ON Time/Price
SW OFF T.ON X A B C ALL
Hide Gann << >>
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SOME VERY IMPORTANT ISSUES WITH GLOBEX TRADING:

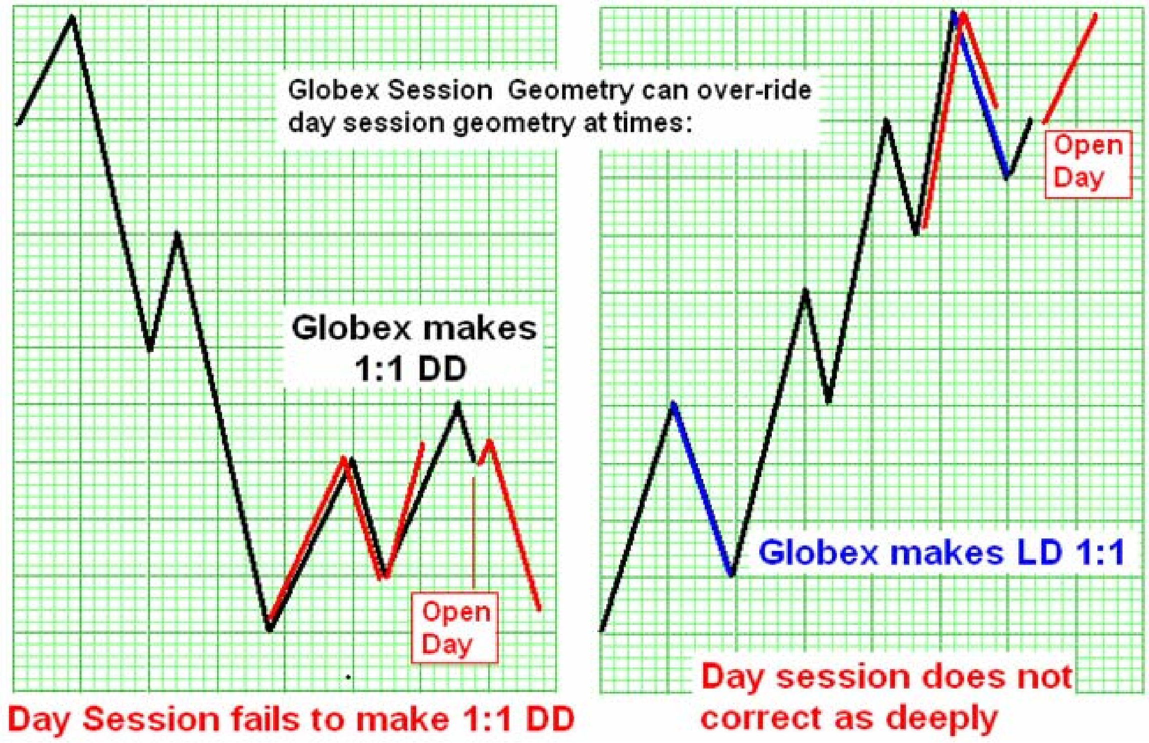
There will be occasions when the Globex session trades to levels that dictate a reversal using our GEOMETRIC approach.

These you need to be aware of before the day session opens if you want to get off to a good start on the new trading day.

Most of the time it will be when the market is in a corrective phase and the Globex session extends a move that was prominent during the day session. The Globex will reverse the market direction and the day session will open somewhere lower or higher depending on the move that was in progress the day prior.

If the Globex has made it to a geometric level that is significant, the day session will attempt to get back there but in many cases it won't and the day session chart will forever look like it reversed with some "lost motion".

I have seen lots of situations like this in the past and they mainly have to do with either 1:1 Double Drives or larger degree 1:1 corrections. I had a few examples from the past but I can't locate them right now so I will have to show you a diagram example instead.


Globex Session Geometry can over-ride day session geometry at times:
Globex makes 1:1 DD
Open Day
Day Session fails to make 1:1 DD
Open Day
Globex makes LD 1:1
Day session does not correct as deeply

These examples are not exactly perfect but they should give you the idea.

My point of view is this:

I have never really liked some days where the Globex has traded out of the day session range and bounced off GEOMETRIC support or resistance. It is hard to decide on those days what it really means when the volumes are usually so low in comparison with the day session.

Nevertheless on most occasions that it has happened and reversed direction the Globex reversal SIGN has seemed to carry through to the day session trading day.

How you deal with it is your prerogative in the future but I can only alert you to the potential of these things if you religiously study the Globex market action each day prior to a session of normal day trading.

I have the WT-ES Assistant Mk II to review all these things on a day to day basis and even during the day session. I don't need to worry about a lot of extra work with the WT-ES assistant as it now keeps track of everything for me.

All I can say is if you keep abreast of all the little things going on around you in the market you will find the answers to your questions.

At the end of the day you may spend 7 hours a day listening and looking at everything you can to do with the market and then all of a sudden everything will fall into place to provide you with a trade set up that has a 90% possibility of working. The experience of this will tell you when the most opportune times to trade are in front of you. You either take the opportunity when it is "vivid" to you or you don't is the simple answer. As you see more and more of the things I am pointing out turn into situations you could have enjoyed you will become a believer.

So for what it is worth you need to learn and do everything I am trying to teach you if you want to make a success of it.

Just remember it is easy to lead a horse to water but in the end you cannot force any one of them to drink.

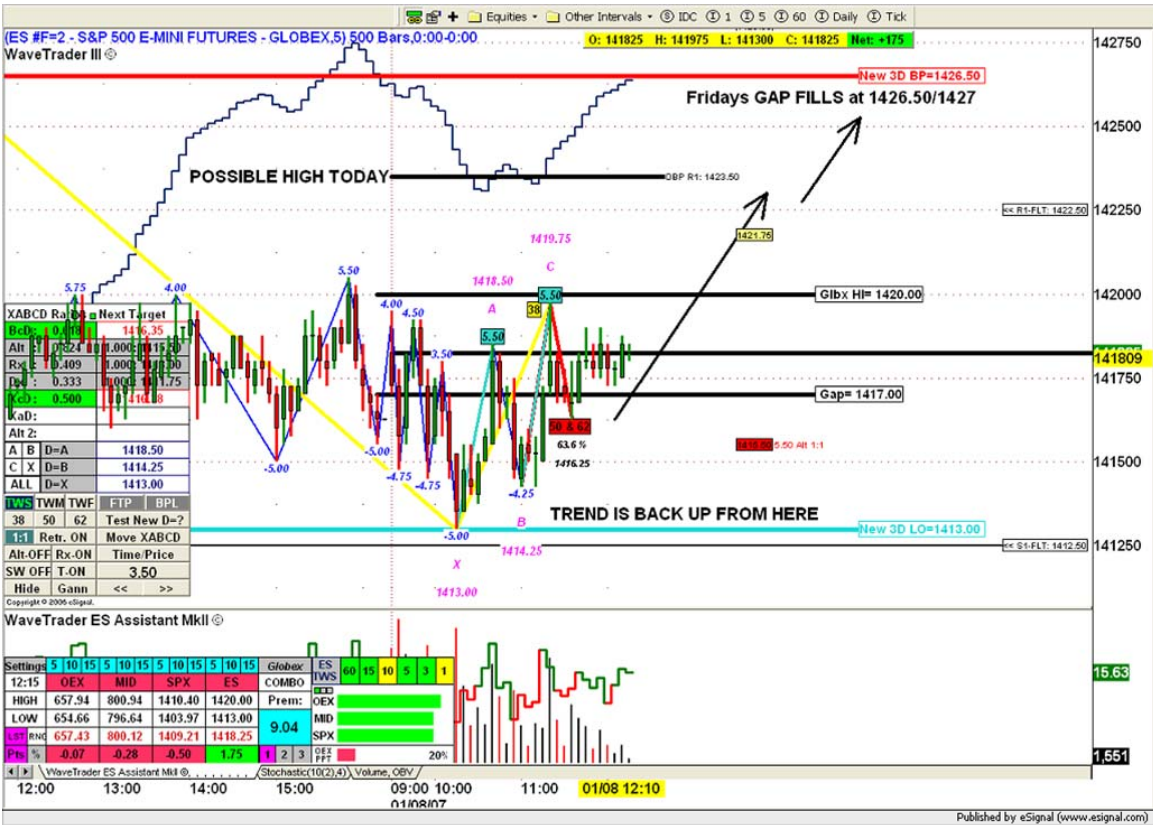
The drinking will only become automatic when you realize I wouldn't be telling you any of this unless it was going to keep working.

The only obstacle in your way to find out if it is going to work for you is to put the hours in and work with it until you can decide what is black and what is grey to you, when should I have a go and when should I sit on the fence. When you know the answer you can move on ahead in leaps and bounds.

Here's a case where the market is confused:

Yet it trades up to a 1:1 DD on the Globex high and they sell it.

Comes back and holds support on a dual 50 / 61.8 now it is in a position to go higher. The real test will be to see if it does.



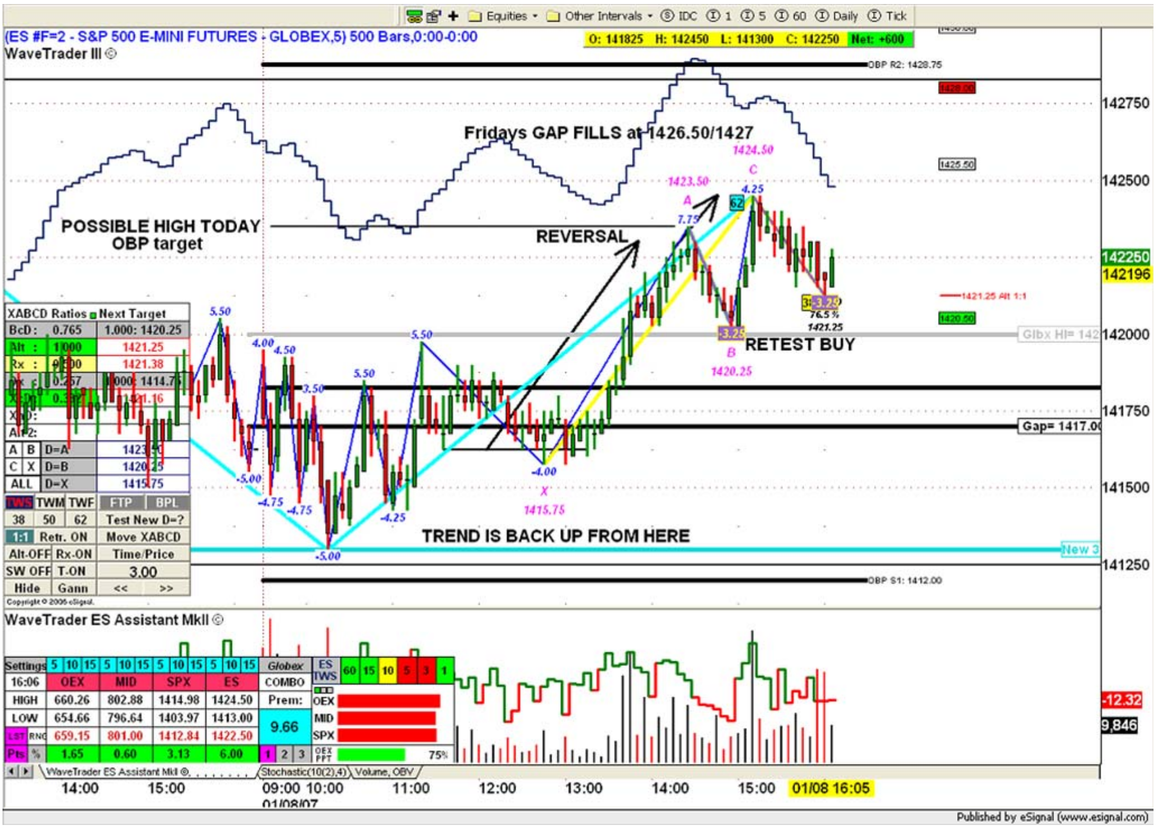
Settings	5	10	15	5	10	15	5	10	15	5	10	15	Globex	ES TWS	60	15	10	5	3	1
12:15	OEX			MID			SPX			ES			COMBO							
HIGH	657.94			800.94			1410.40			1420.00			Prem:	OEX						
LOW	654.66			796.64			1403.97			1413.00			9.04	MID						
LST RNG	657.43			800.12			1409.21			1418.25				SPX						
Pts %	-0.07			-0.28			-0.50			1.75			1 2 3	OEX PPT						20%

Now no matter how this turns out I should explain my thinking so in future you can go back over it and see if it makes sense to you.
The market went down to a new 3 week low early today but had no follow through when it was testing all sorts of support that would have normally meant it would keep going down.

This morning the market showed a strong resilience to breaking down when it should have; this forced the bears to cover. This let the market come back up into a position that put the strong bears in an impossible position to keep selling.

The unusual thing today already is that the market has crossed backwards and forwards across the opening price a few times; basically telling us that it is non directional today or lacks commitment in one direction or the other. But the logical thing to happen is if the bears are backing off then the only way for the market to go is up.

THIS HOW IT TURNED OUT:



Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex	ES TWS	60	15	10	5	3	1
16:06	OEX	MID	SPX	ES	COMBO							
HIGH	660.26	802.88	1414.98	1424.50	Prem:	OEX						
LOW	654.66	796.64	1403.97	1413.00	9.66	MID						
LST RNG	659.15	801.00	1412.84	1422.50		SPX						
Pts %	1.65	0.60	3.13	6.00	1 2 3	OEX PPT	75%					

The 50/61.8 broke slightly to a 1:1 before heading back up again, breaking through the earlier high and then the market met resistance exactly on my OBP target.

Then after a correction back to test the breakout level at the Globex Hi the uptrend resumed again up to a larger degree 61.8; at this time the OEX was up against a 50 retracement of larger degree and the SPX was up against a 38.2/61.8 so the rally came to an end.

Now if you go back and think about what has happened today you could never be this accurate with any other method than the one I am teaching.

And you can never be sure exactly when the OEX, MID or SPX cash are going to hit levels that will impede their progress.

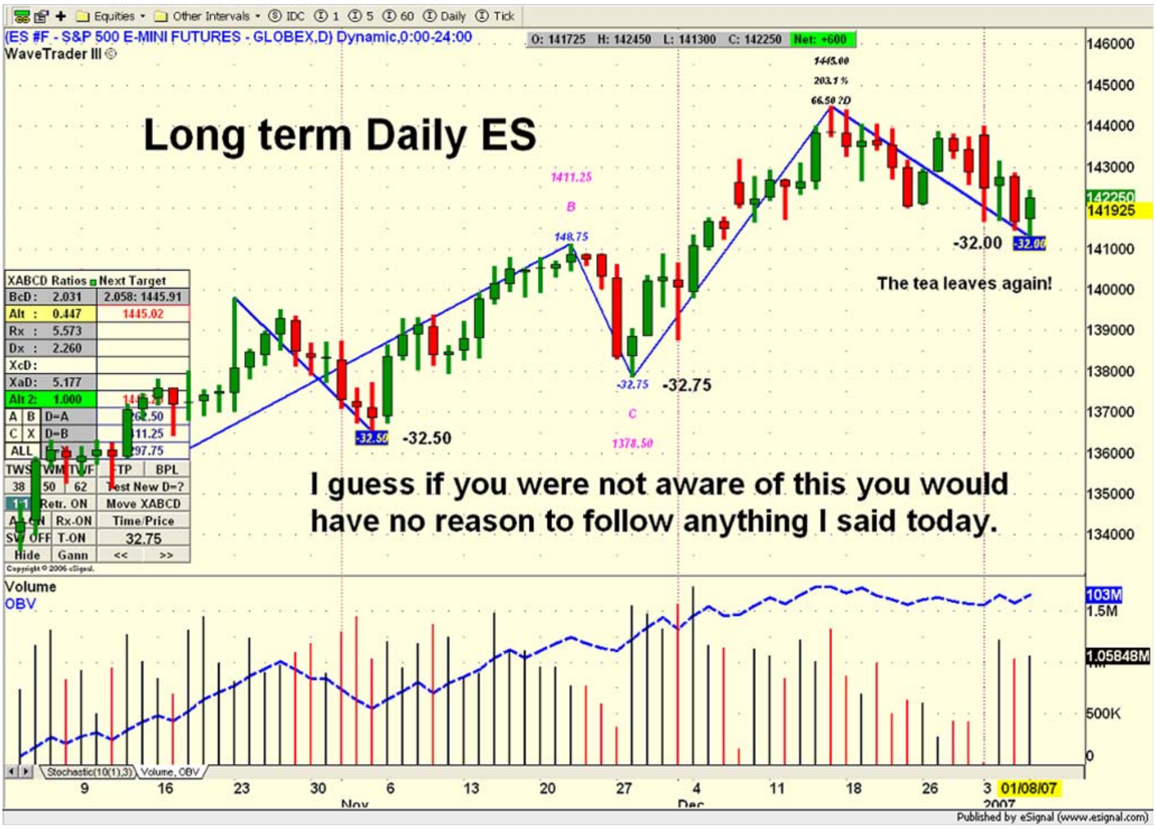
You can speculate on levels but it takes the market to reach them or nearby levels before you have the information to adjust your thinking.

All in all it was a satisfactory day considering it should have been an up day from the beginning of the day.

IN THE BIGGER PICTURE:

There were some obstacles that needed to be surpassed for the market to break down. They didn't actually come to pass and the signs were obvious to anyone following my method.

It's all a matter of confidence in your method and then confirming it by what the market PRICE ACTION does.



Today was just another example of the things other astute traders are doing and watching.

The market has to do what it has to do most of the time unless some significant news event spooks it into doing something else.

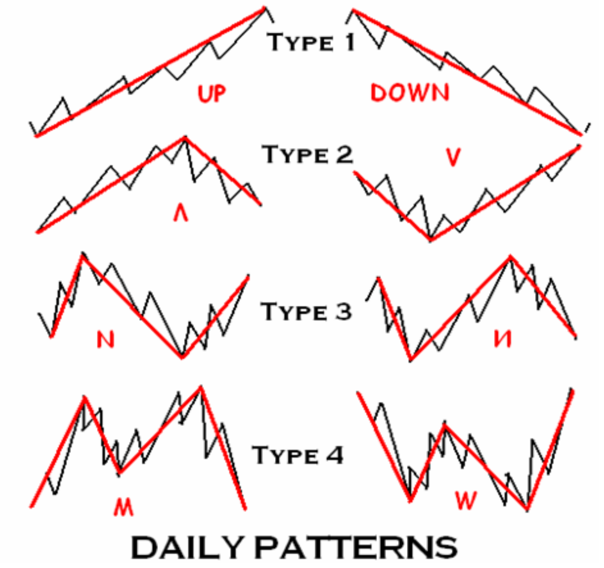
Even if the market does not do what you expect it to do it leaves you with alternatives and sometimes those alternatives can be just as profitable as using the ones that are expected.

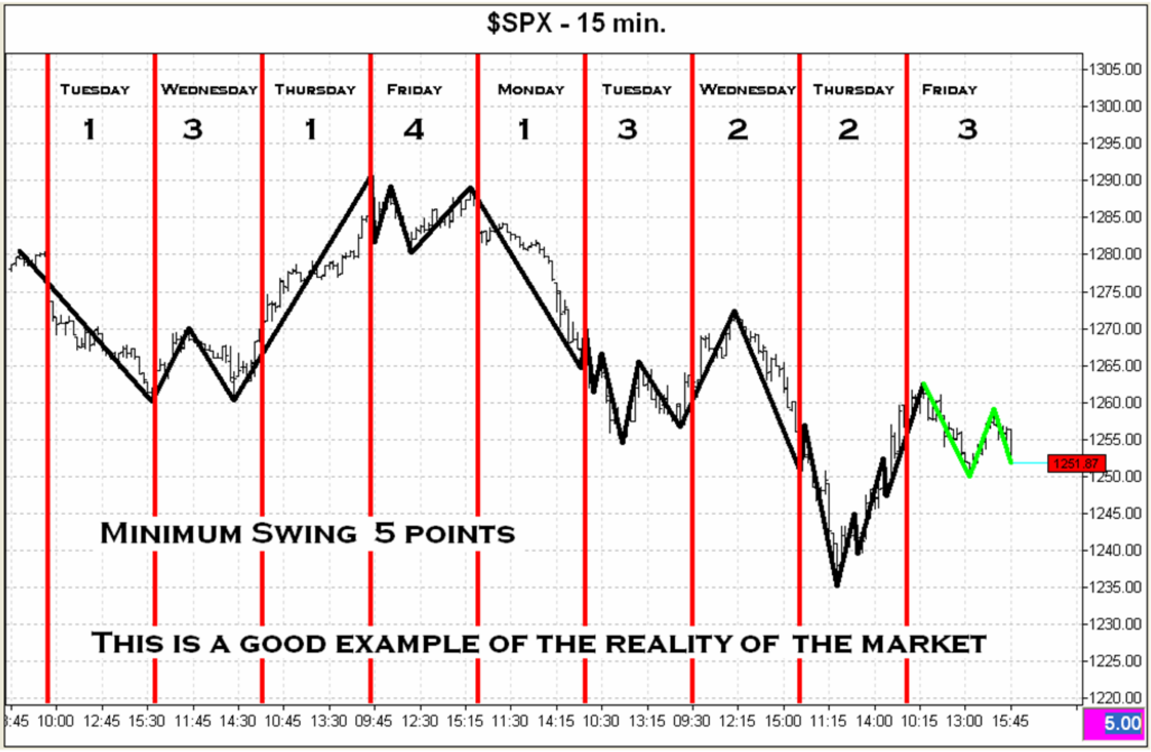
The more you learn about market behavior the closer you will get to what they term the "Holy Grail".

Chapter 33

Daily Trading Patterns:

There are 4 main daily trading patterns you should learn to recognize.


Type 1
UP
DOWN
Type 2
Λ
V
Type 3
N
И
Type 4
M
W
DAILY PATTERNS



Frequencies of PATTERN TYPES:

- **Type 1 day's have a 25% probability.**
- **Type 2 day's have a 25% probability.**
- **Type 3 day's have a 25% probability.**
- **Type 4 day's have a 25% probability.**

The odds of a TYPE 1 day are:-

- **4 to 1 on any given day.**
- **4 to 1 following a type 1 corrective day.**
- **3 to 1 following a type 1 trend day.**

- **2 to 1 following a type 2 reversal day.**
- **Even money or better following 2 or 3 days of type 3 and 4 patterns.**

Type 4 days (W or M days):

These types of patterns are most likely when there is a lack of any significant NEWS or REPORTS being circulated.

They are even more likely if the prior day was a type 1 style day and then the propelling style of news dries up.

Type 2 days (V or inverted V reversal patterns):

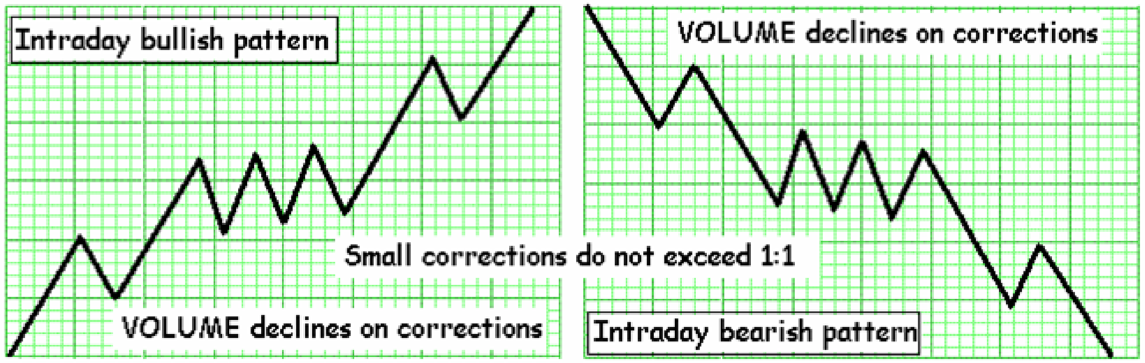
Reversal days will most likely occur when the SPX index has been in a consistent trend for several days and reaches some significant larger degree technical level where the players think it will not go further in the short term.

Most of the time these types of reversals will coincide with significant daily chart overbought or oversold signals.

Each day there is normally sufficient information available to give you a bias of what the market is capable to do. If you have no specific bias then you are most likely facing a type 3 or 4 day. Whatever unfolds it will speak for itself as you see how the players handle the obvious technical support and resistance levels.

Type 1 trading day's:

The type 1 trading days will unfold as a trend that either continues to go up or down all day from the market opening.


Intraday bullish pattern
VOLUME declines on corrections
Small corrections do not exceed 1:1
VOLUME declines on corrections
Intraday bearish pattern

If the corrections do exceed 1:1 then they must not exceed the prior swing pivot low or high to keep the trend intact.

These types of days will generally follow a reversal pattern of some significance on your daily chart.

They could also follow a significant early morning report that gives direction to the buyers or sellers after the market has been trading sideways for a day or two.

If you follow the NEWS events closely it should be obvious to you that as the day unfolds that the sellers or the buyers are lopsided in one direction. When one side has no reason to challenge the present trend they will back off and the market will just continue on its way with intermittent shallow corrections as profit takers exit positions and slow the thing down.

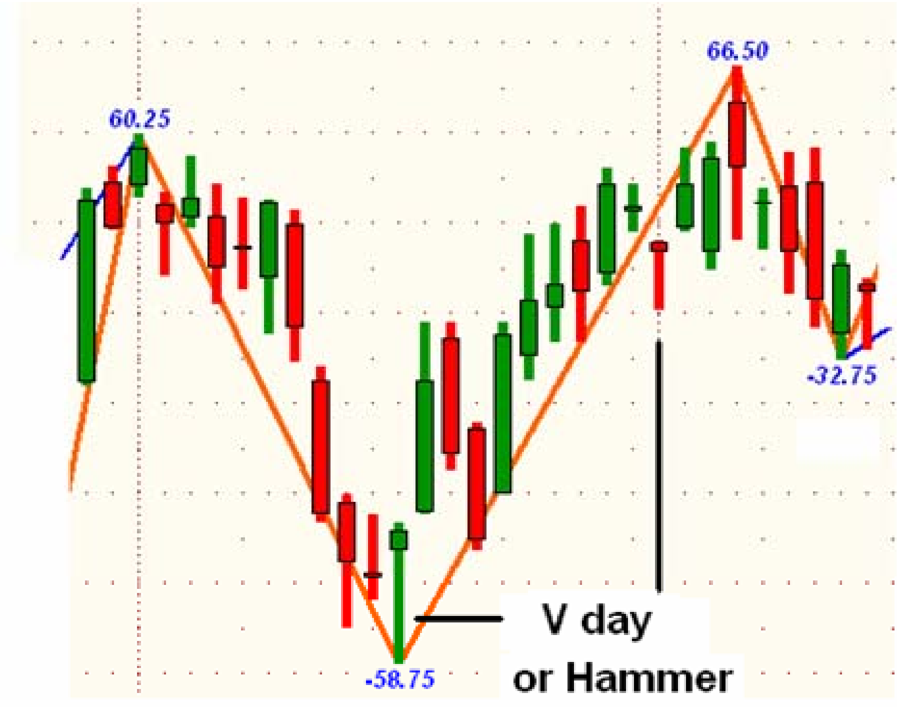
Once the market corrects enough to encourage value buyers an upward trend will resume. If the market is having a down day it may make small corrections at significant retracement levels of a larger degree range, but as long as the prior corrections are not exceeded it won't take long for a new selling thrust to begin again.

Type 2 trading day's:

V days can be regular trading days or reversal days where the market reaches an exhaustion point throughout the day and retraces all of the prior losses or gains made so far from the beginning of the day or the prior day.

V days are not exactly that regular as a reversal day, but when they are reversal days they will normally be followed by a type 1 day.

A reversal V day is a great set up for the next days trading, it will mostly show up as a hammer day on the daily chart.



A casual observation of this sample of daily ES bars will give you some idea of the regularity in the daily patterns. There are many days where the market opens at or near its high or low for the day.

There are plenty of Type 1 days but usually never more than two consecutively in the same direction. Everything else that is not a V day is a type 3 or 4 day.

You will begin to get the idea why my style of trading is much more attractive to your health when you study the market behavior in depth.

Realistically the market appears to be random the way it moves over time but it is quite genuinely geometric most of the time in the smaller time frames.

Chapter 34

The OEX “blue chips” factor:

Now the main thing you are going to have to learn about trading the S&P500 futures is the effect the OEX stocks have on its performance. This is like having a post graduate degree when it comes to trading the S&P500 futures. Without it you may never succeed.

The OEX comprises the top 100 stocks listed in the S&P500 Index. By capitalization weighting they come close to 60% of the total index most of the time, so their influence plays an important part in the movement of the S&P.

Probably as much as 80% of these OEX stocks are held in tight holdings and only about 20% change hands on the open market so this 20% of stocks that attract speculators influence the movement in the S&P Index.

Many of the options, arbitrage and net buy or sell trades employed by the institutions use the OEX or DJIA stocks to work positions against the futures. The reason for this is that the OEX stocks are liquid most of the time.

Now on any given day only about 50% of OEX stocks or less will be moving up or down, but as each of them attract interest they will make some good moves. The hot OEX stocks will move quite quickly some days due to fundamental reasons or major technical reasons so they are very important to your success long term.

Another thing worth mentioning is that institutions always target the OEX stocks which are active to work trading strategies against the futures. They may only need to target 15 or 20 stocks from the OEX at a time to offset a balance or imbalance between the futures and cash markets to give their trades a chance.

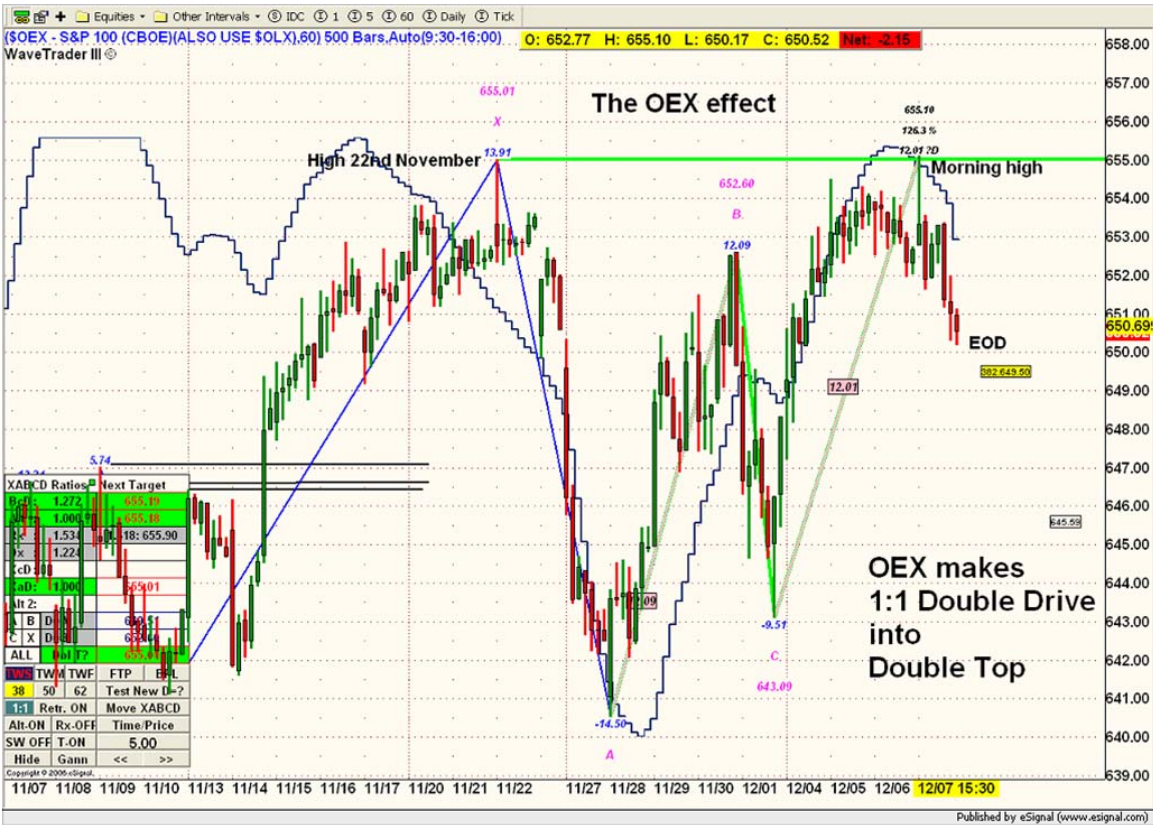
You have guys sitting in the back office on computers world wide working out strategies day in and day out. They can find ways you would never believe to push certain stocks in one direction or the other.

Now since we are not in their position we can only follow the OEX as an overall guide and vehicle to keep us on the right track, as if some stocks are not moving and others are we can still work out the influence. The more stocks from the OEX that move in the same direction then the stronger or weaker the S&P index will be, as they may be a lot stronger or weaker overall than the other 400 making up the structure of the S&P.

The OEX chart should be treated the same as any price series on the basis of all the technical signals I have shown you in this text. It (the OEX) will as a "general rule" obey all the caveats I have set for the futures charts and do so in its own right. Because of this it is a reliable indicator of where the strength or weakness in the S&P500 will become apparent.

To trade the S&P without giving the OEX considerable thought is a mistake. This example should explain my message loud and clear.

On Thursday 7th December (rollover day for the ES to the March contract) the OEX was approaching a double top that had a 1:1 DD geometry present with it, (12x12 points). If you had been aware of this situation you would have known that this was a formidable implied resistance level that would take a lot of money pouring into stocks to break it to the upside.



As you can see from the chart the double top attracted a selling spree from the professionals.

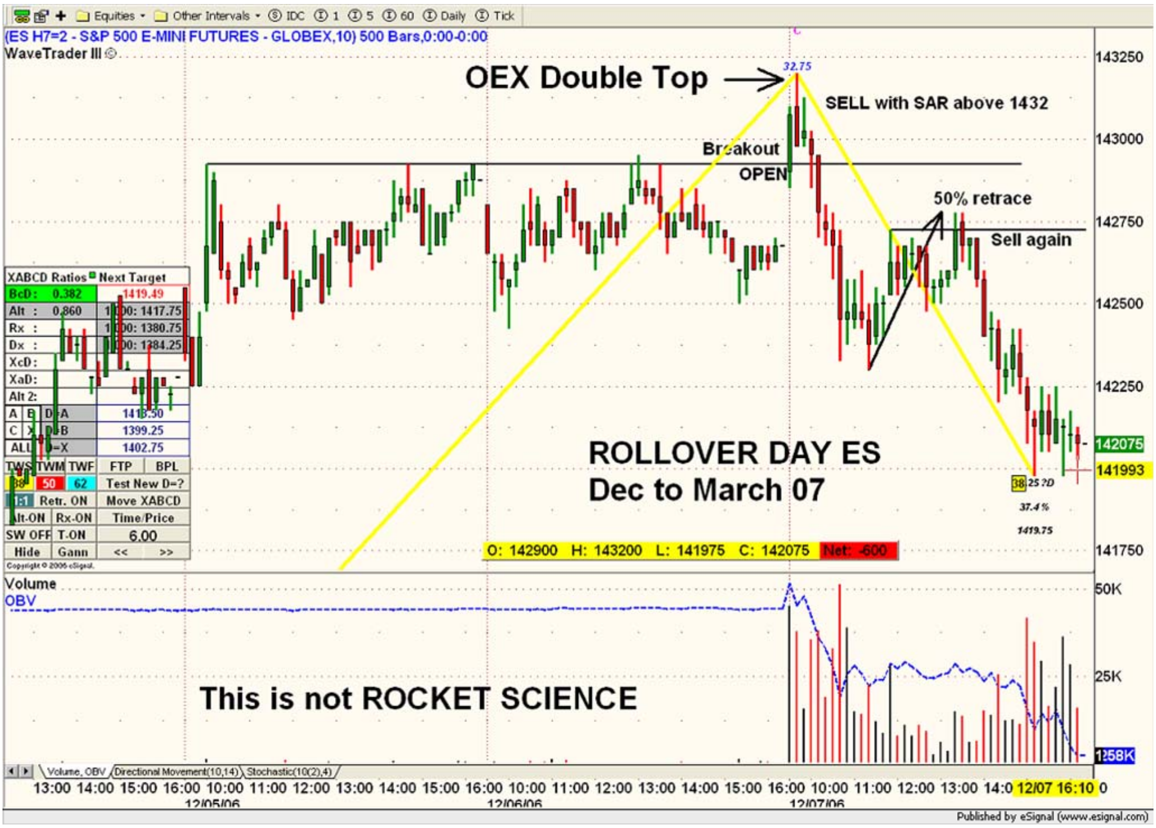
I knew at the time that there was a 80/20 chance that this would happen so it was just a matter of letting the stocks open and watching what the OEX was going to do to get a confirmation of what the ES futures had to do.

The ES that day:

The rollover to March ES was coming on today with a considerable premium to the CASH SPX. There was every chance the arbitragers would buy stocks and sell the futures for a drop in the premium over the next several weeks.

The cash stocks opened on a buying mode and it looked like the ploy was going to plan. During the first 10-15 minutes the futures rose and so did the OEX.
The ES actually made high of 1432 on the R2 Floor Traders Pivot price for the day as the OEX made DOUBLE TOP. Then the rot began to set in.

It didn't take long to reverse the ES futures direction to down from up. From there on it was money for jam to those who knew what was going on.

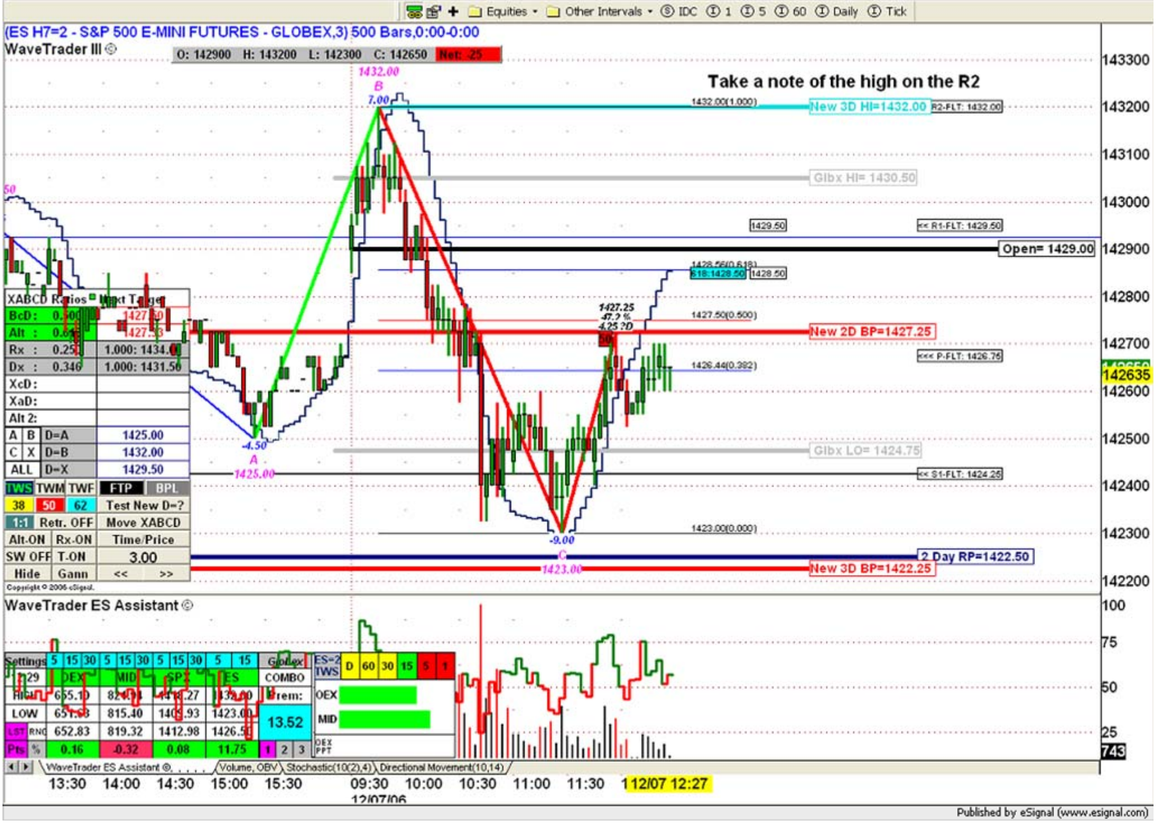


As I have often said before, this is not rocket science. All you need to understand is where the opportunities are obvious.

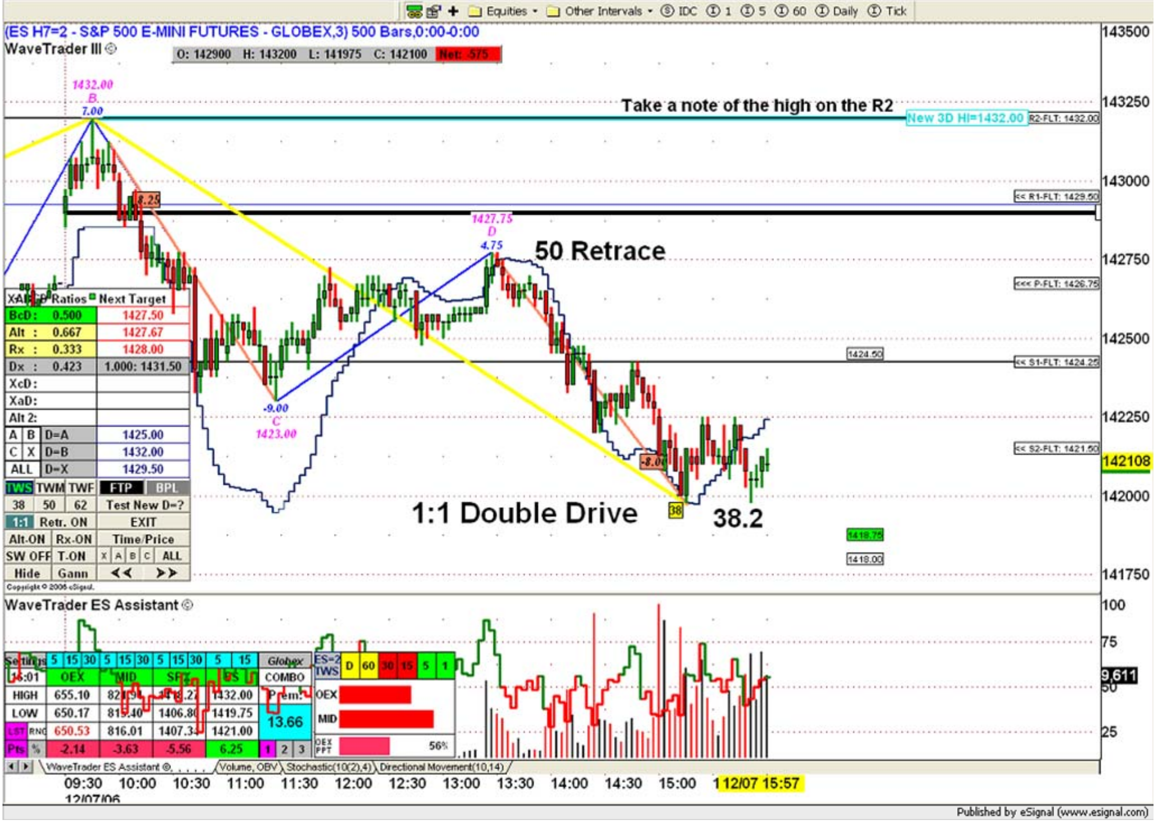
When the trader's actions confirm that the money flow is changing direction you will know the reasons why.

To make money you just have to take a position at the point of least risk and go for the ride.

This was how the market looked by 12:30 ET.



This is how it looked by the close.



The moral to all of this is:

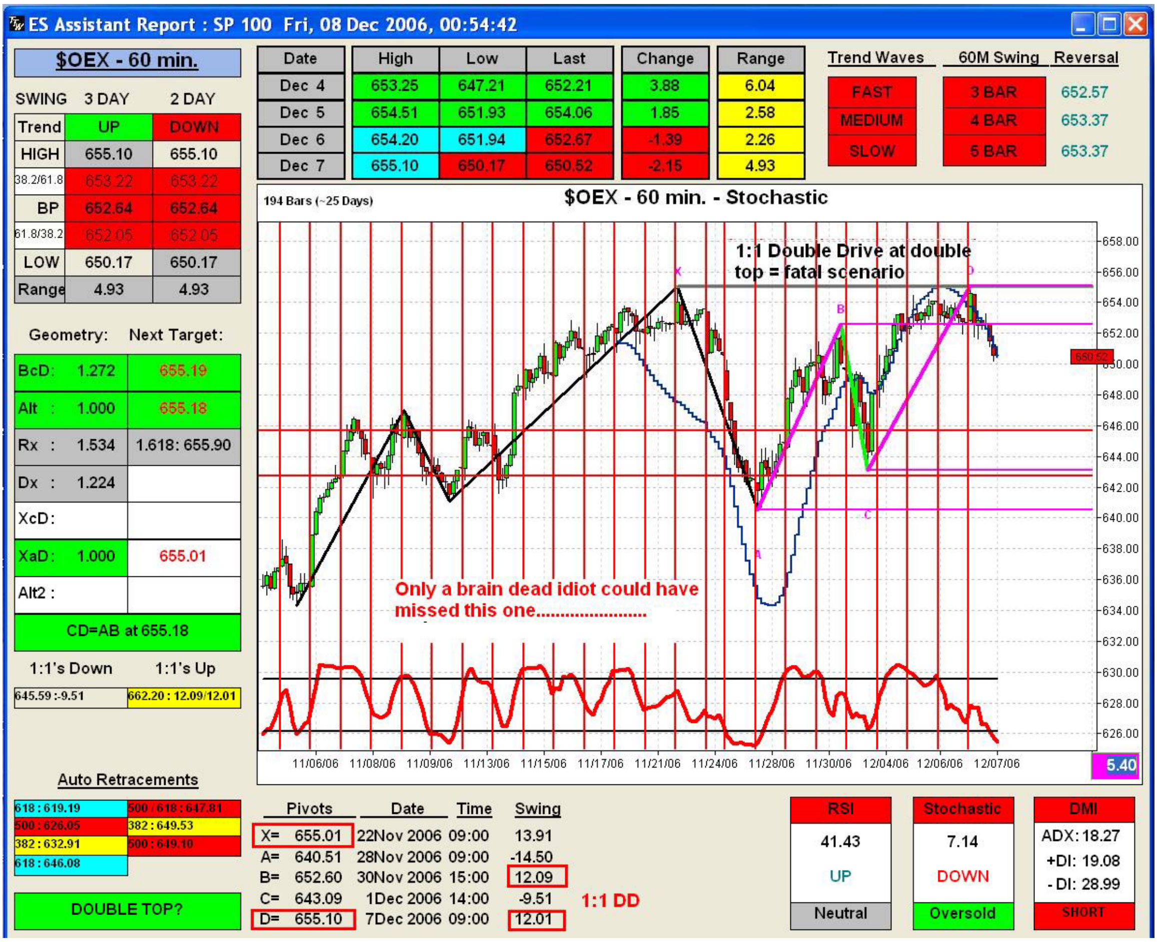
One day you will all be able to look at the market from all sides and then you will never have a worry in the world.

Just treat the market like a proverbial apple orchard.

Then all you do is jump the fence and run in and pick what looks ripe, as that is all you need. When you have what you were looking for jump back over the fence to safety before you cop some buckshot in your ass.

Here’s a shot of the WT-ES report on the 60 minute OEX when it double topped this morning.

If this wasn’t an alert after all I have shown you then nothing was.


194 Bars (~25 Days)
$OEX - 60 min. - Stochastic
1:1 Double Drive at double top = fatal scenario
X
A
B
C
D
650.52
658.00
656.00
654.00
652.00
650.00
648.00
646.00
644.00
642.00
640.00
638.00
636.00
634.00
632.00
630.00
628.00
626.00
Only a brain dead idiot could have missed this one......................
11/06/06
11/08/06
11/09/06
11/13/06
11/15/06
11/17/06
11/21/06
11/24/06
11/28/06
11/30/06
12/04/06
12/06/06
12/07/06
5.40

ES Assistant Report : SP 100 Fri, 08 Dec 2006, 00:54:42

$OEX - 60 min.

SWING	3 DAY	2 DAY
Trend	UP	DOWN
HIGH	655.10	655.10
38.2/61.8	653.22	653.22
BP	652.64	652.64
61.8/38.2	652.05	652.05
LOW	650.17	650.17
Range	4.93	4.93

Geometry:		Next Target:
BcD:	1.272	655.19
Alt :	1.000	655.18
Rx :	1.534	1.618: 655.90
Dx :	1.224	
XcD:		
XaD:	1.000	655.01
Alt2 :		

CD=AB at 655.18

1:1's Down	1:1's Up
645.59 :-9.51	662.20 : 12.09/12.01

Auto Retracements

618 : 619.19	500 / 618 : 647.81
500 : 626.05	382 : 649.53
382 : 632.91	500 : 649.10
618 : 646.08	

DOUBLE TOP?

Date	High	Low	Last	Change	Range
Dec 4	653.25	647.21	652.21	3.88	6.04
Dec 5	654.51	651.93	654.06	1.85	2.58
Dec 6	654.20	651.94	652.67	-1.39	2.26
Dec 7	655.10	650.17	650.52	-2.15	4.93

Trend Waves	60M Swing	Reversal
FAST	3 BAR	652.57
MEDIUM	4 BAR	653.37
SLOW	5 BAR	653.37

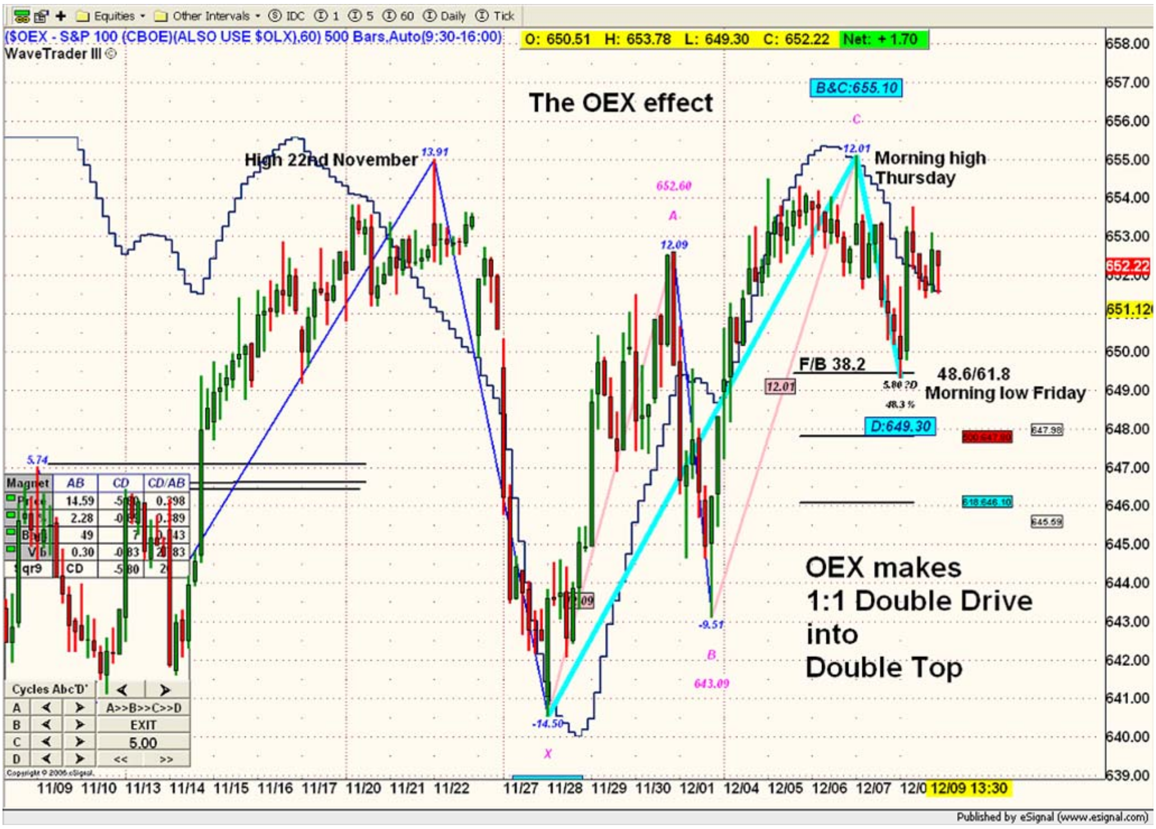
Pivots	Date	Time	Swing
X= 655.01	22Nov 2006	09:00	13.91
A= 640.51	28Nov 2006	09:00	-14.50
B= 652.60	30Nov 2006	15:00	12.09
C= 643.09	1Dec 2006	14:00	-9.51
D= 655.10	7Dec 2006	09:00	12.01

1:1 DD

RSI	Stochastic	DMI
41.43 UP	7.14 DOWN	ADX: 18.27 +DI: 19.08 - DI: 28.99
Neutral	Oversold	SHORT

What will happen tomorrow is not an issue to me. All that counts is what happens during the active trading day.

Here is what happened Friday in the OEX:



The 38.2 was breached ever so slightly, but the geometry was there on Fibonacci ratios.

The ES futures moved down a degree to the next 38.2 that coincided with this OEX low today.

The OEX still has an upside target of 670 (see page 23) so it will pay to always keep that in mind. If this 38.2 holds and we can break up through the double top next week the 670 becomes achievable in the short term.

Bullish consensus is at an all time high right now and all the stragglers are buying stocks. We have to be close to a high of some significance so we will see.

The best way to approach your market analysis is to start with the MAJOR waves and work downwards in SWING degree to the SMALLER swings to trade off.

You will realize after a while that the same patterns continue to repeat in all swing degrees.

The WT-ES Assistant Mk III:

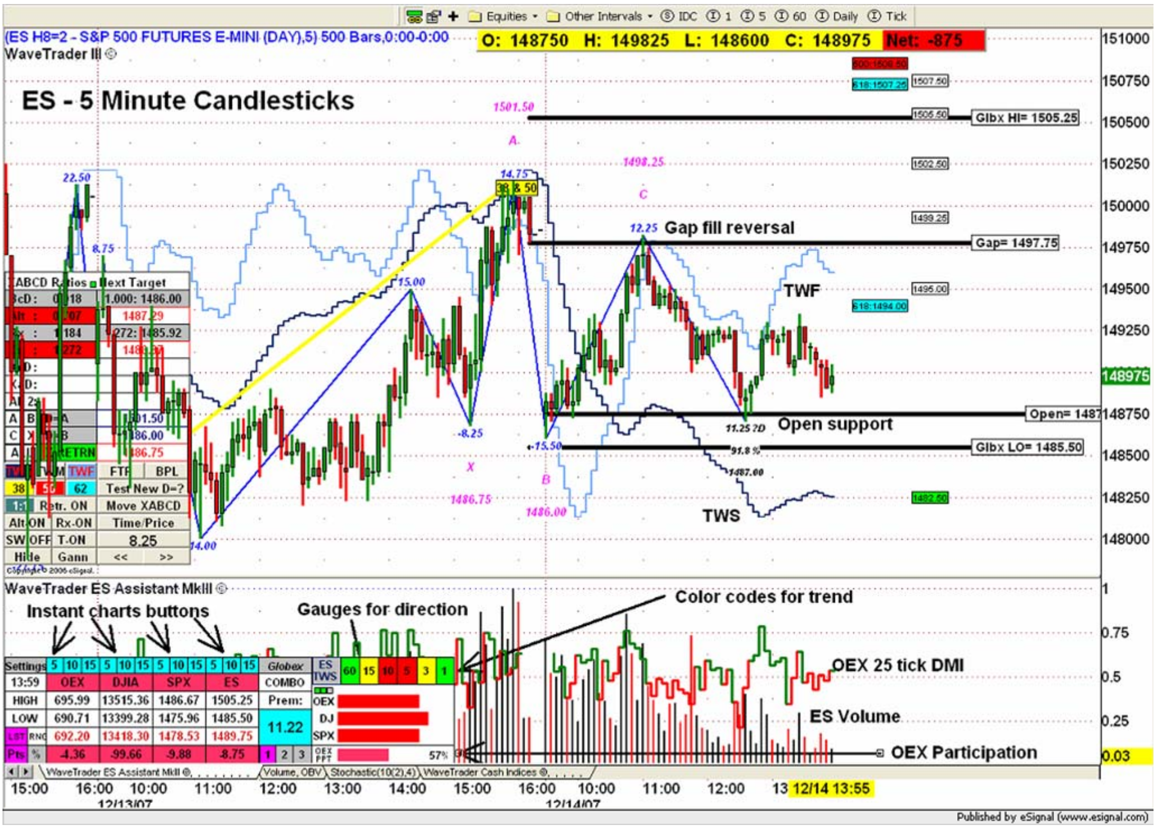
The WT-ES is a program we have designed to allow us to quickly keep track of the short term, medium term and long term trends in the OEX, DJIA and SPX.

The short term direction of CASH markets is extremely important to the ES during the current trading day.

When the OEX & DJIA are going up they will have the ability to stifle the effect of the 400 lower capitalized stocks in the S&P500 that maybe going down.

If the OEX and the broader 400 stocks are both going in the same direction the S&P500 will be far more directional and move a lot faster in that direction.

Now the clue is to know where the OEX and the SPX are moving and evaluate how it will translate to the ES futures market.



(ES H8=2 - S&P 500 FUTURES E-MINI (DAY),5) 500 Bars,0:00-0:00
WaveTrader III
O: 148750 H: 149825 L: 148600 C: 148975 Net: -875
ES - 5 Minute Candlesticks
Glbx HI= 1505.25
Gap= 1497.75
Gap fill reversal
TWF
Open support
Open= 1487
Glbx LO= 1485.50
TWS
1501.50
1498.25
1486.75
1486.00
22.50
14.75
12.25
11.25
15.00
8.75
8.25
15.50
14.00
A
B
C
X
151000
150750
150500
150250
150000
149750
149500
149250
148975
148750
148500
148250
148000
WaveTrader ES Assistant MkIII
Instant charts buttons
Gauges for direction
Color codes for trend
OEX 25 tick DMI
ES Volume
OEX Participation
1
0.75
0.5
0.25
0.03
15:00
16:00
10:00
11:00
12:00
13:00
14:00
15:00
16:00
10:00
11:00
12:00
13
12/13/07
12/14/07
12/14 13:55
Published by eSignal (www.esignal.com)

Settings	5	10	15	5	10	15	5	10	15	5	10	15	Globex
13:59	OEX			DJIA			SPX			ES			COMBO
HIGH	695.99			13515.36			1486.67			1505.25			Prem:
LOW	690.71			13399.28			1475.96			1485.50			11.22
LST RNG	692.20			13418.30			1478.53			1489.75			
Pts %	-4.36			-99.66			-9.88			-8.75			1 2 3

ES TWS	60	15	10	5	3	1
OEX						
DJ						
SPX						
OEX PPT						57%

Please Note:
The gauges are only active and reliable during Wall Street trading hours; the OEX warm up time takes 7 minutes to start recording readings. Before each trading day the WT-ES eSignal page needs to be reloaded 1 minute after the open on Wall Street to refresh all the data it requires for the daily reports.

THINGS YOU SHOULD MONITOR WITH THE OEX:

Always remember that the OEX & DJIA stocks are highly prized by investors for the income they produce and distribute in dividends.

The WT-ES Assistant has the ability to throw up charts of the OEX from 1 minute time frames to Monthly if you have the add on WT-Cash Indices.

You should have these tools if you are trading ES.

Then you can monitor all wave or swing degrees for the OEX as a confirming influence over the S&P500 and ultimately for the ES futures.

Technical principles are equally important to all charts and there will be instances where both the OEX and SPX need to break out of ranges to confirm a continuation; the outcome will rely on the OEX breaking out so make sure you get a confirmation from the OEX.

Monitoring the OEX is easy to do when you have the right tools at your disposable. Correctly analyzing the OEX will always keep you thinking in the right direction.

If you want to take your ES trading to a higher level you will need the WT-ES Assistant Mk III. Without it you are making life difficult for yourself. If you choose not to then I am not going to lose any sleep over it. It is just enough for me to tell you how you can help yourself if you want to be a winner.

At the end of the day you will only succeed if you have the “street sense” to be a winner.

Once you have done the screen time you will realize that I am only trying to steer you in the right direction. The spoils of war in the futures markets are unlimited for some; nevertheless some of you will never make it.

I can accept that outcome but I want you to know that I will not cry for you if you don’t make it after the effort I have made to make sure you knew what you should be doing to win.

Caveat Emptor:

Chapter 35

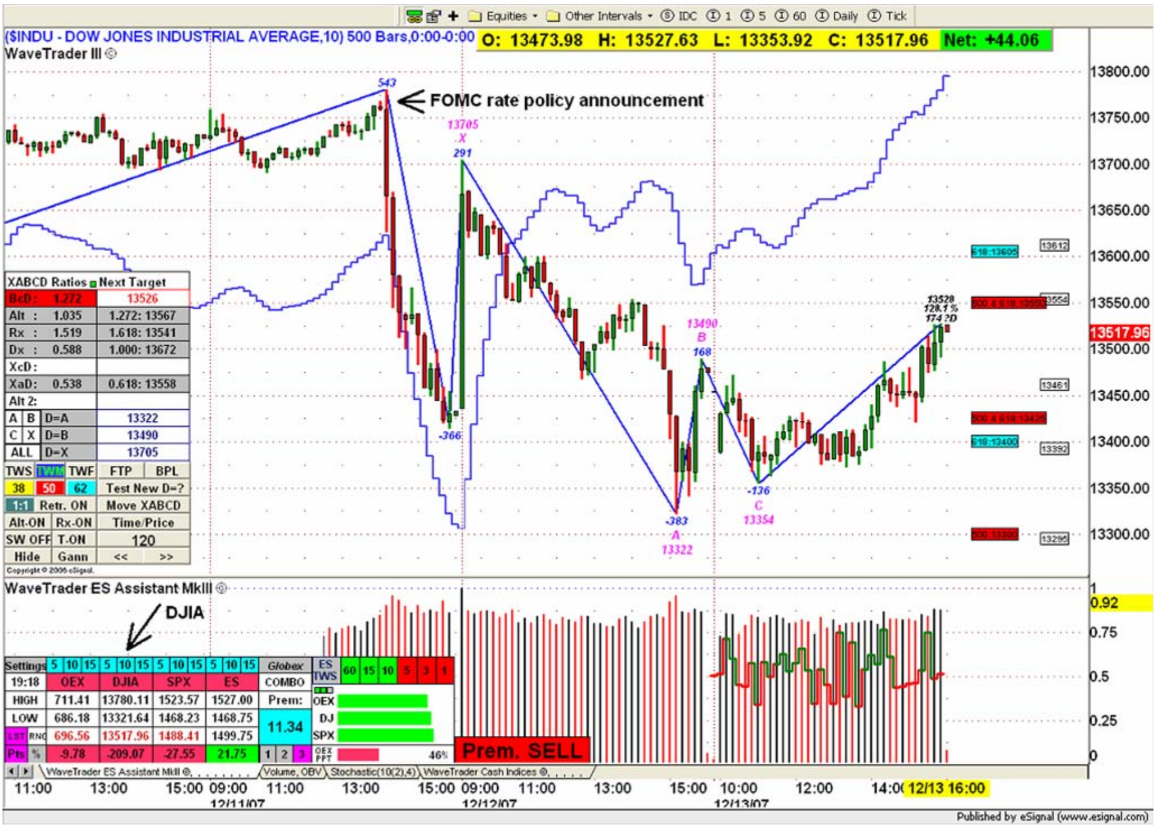
The DJIA “Industrial Blue Chips” factor:

The DJIA Industrials index is an index of the top 30 industrial stocks and makes up approximately 30% of the total SPX market capitalization.

The DOW as we call it tends to give you a quick guide to the directional influences in the S&P, as a group they seem to be an excellent barometer of the USA stock market as they are monitored and reported on by worldwide news services.

The DJIA or INDU$ index is a different style of index to the OEX or SPX in calculation. This is a PRICE INDEX rather than a CAPITALIZATION INDEX.

As a PRICE INDEX it means that each stock in the index is treated equally. If the price of the lowest capitalized stock rise’s $1 it will have the same effect as the price of the largest capitalized stock rising $1.


Equities
Other Intervals
IDC
1
5
60
Daily
Tick
WaveTrader III
FOMC rate policy announcement
543
13705
X
291
-366
13490
B
168
-383
A
13322
-136
C
13354
13528
128.1 %
174 ?D
13800.00
13750.00
13700.00
13650.00
13600.00
13550.00
13517.96
13500.00
13450.00
13400.00
13350.00
13300.00
WaveTrader ES Assistant MkIII
DJIA
1
0.92
0.75
0.5
0.25
0
Prem. SELL
WaveTrader ES Assistant MkII
Volume, OBV
Stochastic(10(2),4)
WaveTrader Cash Indices
11:00
13:00
15:00
09:00
12/11/07
11:00
13:00
15:00
09:00
12/12/07
11:00
13:00
15:00
10:00
12/13/07
12:00
14:00
12/13 16:00
Published by eSignal (www.esignal.com)

($INDU - DOW JONES INDUSTRIAL AVERAGE,10) 500 Bars,0:00-0:00 O: 13473.98 H: 13527.63 L: 13353.92 C: 13517.96 Net: +44.06

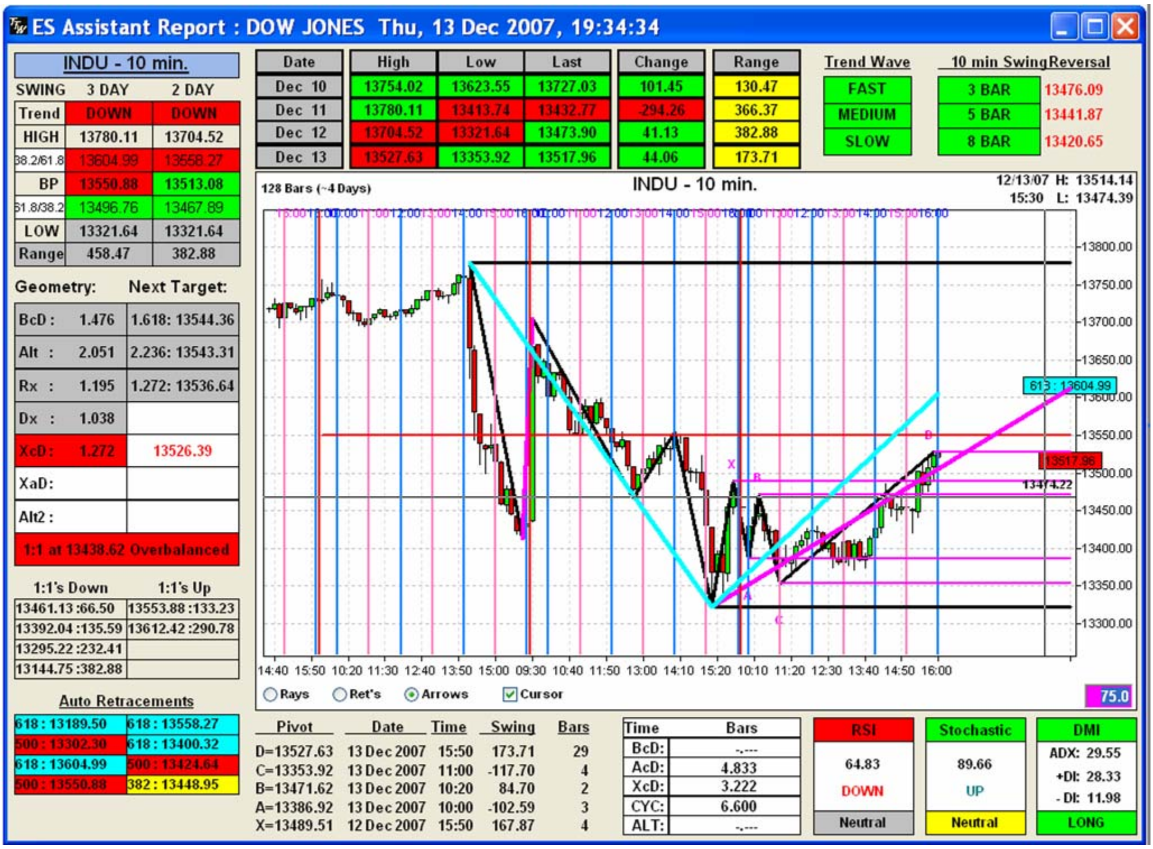
XABCD Ratios	Next Target
BcD: 1.272	13526
Alt : 1.035	1.272: 13567
Rx : 1.519	1.618: 13541
Dx : 0.588	1.000: 13672
XcD:	
XaD: 0.538	0.618: 13558
Alt 2:	
A B D=A	13322
C X D=B	13490
ALL D=X	13705

Copyright © 2006 eSignal.

Settings	5 10 15	5 10 15	5 10 15	5 10 15	Globex
19:18	OEX	DJIA	SPX	ES	COMBO
HIGH	711.41	13780.11	1523.57	1527.00	Prem:
LOW	686.18	13321.64	1468.23	1468.75	11.34
LST RNG	696.56	13517.96	1488.41	1499.75	
Pts %	-9.78	-209.07	-27.55	21.75	1 2 3

ES TWS	60	15	10	5	3	1
OEX						
DJ						
SPX						
OEX PPT						46%

Our latest WT-ES assistant III incorporates tracking functions for the DJIA.



ES Assistant Report : DOW JONES Thu, 13 Dec 2007, 19:34:34

INDU - 10 min.

SWING	3 DAY	2 DAY
Trend	DOWN	DOWN
HIGH	13780.11	13704.52
38.2/61.8	13604.99	13558.27
BP	13550.88	13513.08
61.8/38.2	13496.76	13467.89
LOW	13321.64	13321.64
Range	458.47	382.88

Geometry:		Next Target:
BcD :	1.476	1.618: 13544.36
Alt :	2.051	2.236: 13543.31
Rx :	1.195	1.272: 13536.64
Dx :	1.038	
XcD :	1.272	13526.39
XaD:		
Alt2 :		

1:1 at 13438.62 Overbalanced

1:1's Down	1:1's Up
13461.13 :66.50	13553.88 :133.23
13392.04 :135.59	13612.42 :290.78
13295.22 :232.41	
13144.75 :382.88	

Auto Retracements

618 : 13189.50	618 : 13558.27
500 : 13302.30	618 : 13400.32
618 : 13604.99	500 : 13424.64
500 : 13550.88	382 : 13448.95

Date	High	Low	Last	Change	Range
Dec 10	13754.02	13623.55	13727.03	101.45	130.47
Dec 11	13780.11	13413.74	13432.77	-294.26	366.37
Dec 12	13704.52	13321.64	13473.90	41.13	382.88
Dec 13	13527.63	13353.92	13517.96	44.06	173.71

Trend Wave	10 min SwingReversal	
FAST	3 BAR	13476.09
MEDIUM	5 BAR	13441.87
SLOW	8 BAR	13420.65

○ Rays ○ Ret's ● Arrows ☑ Cursor

Pivot	Date	Time	Swing	Bars
D=13527.63	13 Dec 2007	15:50	173.71	29
C=13353.92	13 Dec 2007	11:00	-117.70	4
B=13471.62	13 Dec 2007	10:20	84.70	2
A=13386.92	13 Dec 2007	10:00	-102.59	3
X=13489.51	12 Dec 2007	15:50	167.87	4

Time	Bars
BcD:	-.---
AcD:	4.833
XcD:	3.222
CYC:	6.600
ALT:	-.---

RSI	Stochastic	DMI
64.83 DOWN	89.66 UP	ADX: 29.55 +DI: 28.33 - DI: 11.98
Neutral	Neutral	LONG

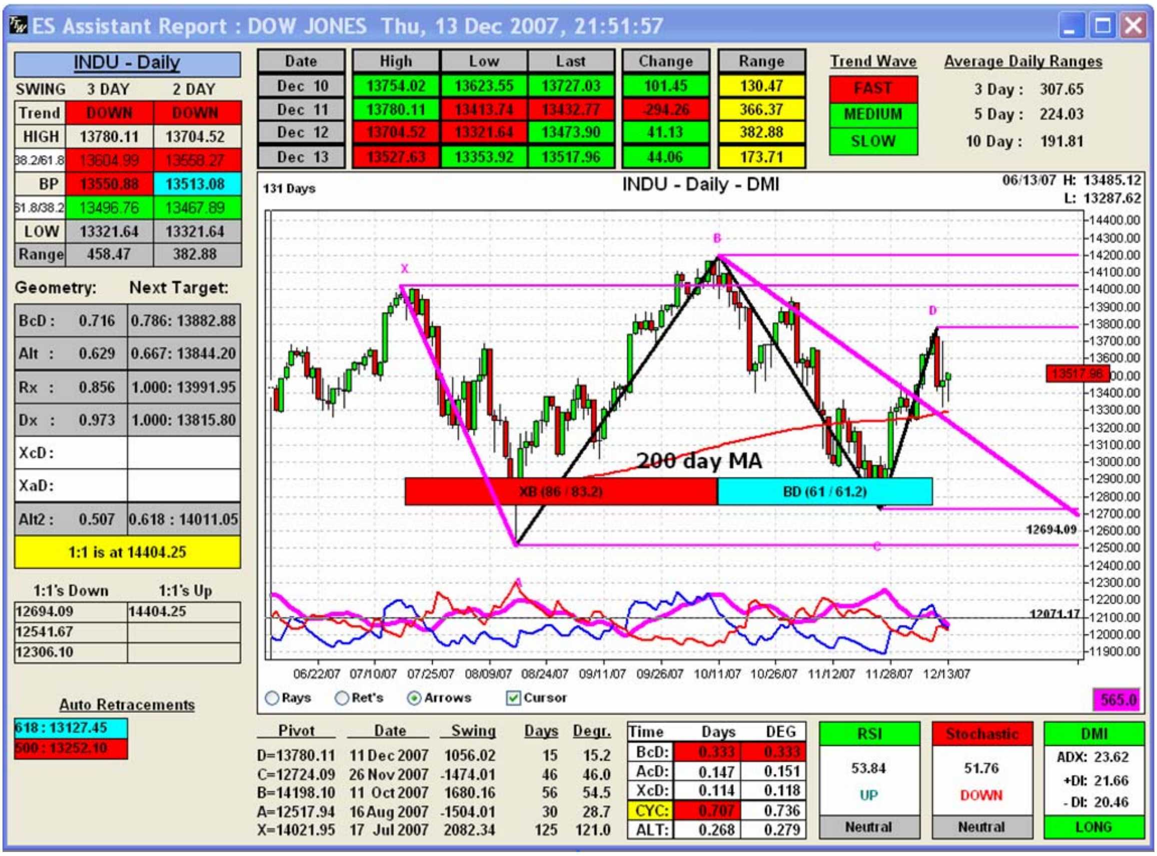
The WT Assistant III offers the user a fast way to analyze the DJIA movement in time periods ranging from 1 minute, 3 minute, 5 minute, 10 minute, 15 minute, 30 minute, 60 minute and daily time frames or other variable minute time frames set by the user.

The report pages are preset layouts and can be flashed up instantly, on a separate screen, with one mouse click. All the basic geometric functions of the WT III are incorporated within the assistant. Mainly the ability to vary the swing size on individual reports, adjust the data frame up to a maximum of 498 individual bars, move the target swing D backwards and forwards to interrogate prior swing geometry, draw in support and resistance rays or arrows for future acknowledgement, draw in retracement levels of a range as 38.2, 50 & 61.8, show the studies below the chart, insert possible 1:1 targets as well as the obvious 38.2, 50 and 61.8 targets already defined in the next higher swing degree applicable.

All the reports are color coded to assist with a fast appraisal and interpretation of the indicators, future geometric targets can be displayed by clicking on the display boxes. If you look at the chart above you will see where the logical geometric targets higher than the current market price fall.

The 1st falls at the 13544 level and then the second falls at the 61.8 of large degree around the 13605 and the magenta 1:1 @ 13612.

Time Cycle ratios between swing highs and lows can also be displayed on the daily reports with a click of the mouse. 1:1's for a bullish or bearish scenario can be overlaid on the report chart as you wish.


ES Assistant Report : DOW JONES Thu, 13 Dec 2007, 21:51:57
131 Days
INDU - Daily - DMI
06/13/07 H: 13485.12
L: 13287.62
14400.00
14300.00
14200.00
14100.00
14000.00
13900.00
13800.00
13700.00
13600.00
13517.96
13400.00
13300.00
13200.00
13100.00
13000.00
12900.00
12800.00
12700.00
12600.00
12500.00
12400.00
12300.00
12200.00
12100.00
12000.00
11900.00
X
B
D
C
A
200 day MA
XB (86 / 83.2)
BD (61 / 61.2)
12694.09
12071.17
06/22/07
07/10/07
07/25/07
08/09/07
08/24/07
09/11/07
09/26/07
10/11/07
10/26/07
11/12/07
11/28/07
12/13/07
○ Rays
○ Ret's
● Arrows
☑ Cursor
565.0

INDU - Daily

SWING	3 DAY	2 DAY
Trend	DOWN	DOWN
HIGH	13780.11	13704.52
38.2/61.8	13604.99	13558.27
BP	13550.88	13513.08
61.8/38.2	13496.76	13467.89
LOW	13321.64	13321.64
Range	458.47	382.88

Geometry:		Next Target:
BcD :	0.716	0.786: 13882.88
Alt :	0.629	0.667: 13844.20
Rx :	0.856	1.000: 13991.95
Dx :	0.973	1.000: 13815.80
XcD :		
XaD:		
Alt2 :	0.507	0.618 : 14011.05

1:1 is at 14404.25

1:1's Down	1:1's Up
12694.09	14404.25
12541.67	
12306.10	

Auto Retracements

618 : 13127.45
500 : 13252.10

Date	High	Low	Last	Change	Range
Dec 10	13754.02	13623.55	13727.03	101.45	130.47
Dec 11	13780.11	13413.74	13432.77	-294.26	366.37
Dec 12	13704.52	13321.64	13473.90	41.13	382.88
Dec 13	13527.63	13353.92	13517.96	44.06	173.71

Trend Wave

FAST
MEDIUM
SLOW

Average Daily Ranges

3 Day : 307.65
5 Day : 224.03
10 Day : 191.81

Pivot	Date	Swing	Days	Degr.
D=13780.11	11 Dec 2007	1056.02	15	15.2
C=12724.09	26 Nov 2007	-1474.01	46	46.0
B=14198.10	11 Oct 2007	1680.16	56	54.5
A=12517.94	16 Aug 2007	-1504.01	30	28.7
X=14021.95	17 Jul 2007	2082.34	125	121.0

Time	Days	DEG
BcD:	0.333	0.333
AcD:	0.147	0.151
XcD:	0.114	0.118
CYC:	0.707	0.736
ALT:	0.268	0.279

RSI	Stochastic	DMI
53.84 UP	51.76 DOWN	ADX: 23.62 +DI: 21.66 - DI: 20.46
Neutral	Neutral	LONG

When it comes to trading the ES S&P500 futures the big picture trend will be dominated by the actions of the OEX and DJIA stocks.

In times where stock market prices are declining it will usually be the MID CAPS that get hit first as money moves back into the "ships" that will not sink (or so we think).

But when the "Blue Chips" are declining in value, in a big way, the long term investors will have cause to worry.

When you are looking at the big picture it pays to remember that overall the "blue chips" as a group will trade in a more technical correct mode than the futures markets or broader market indices.

Chapter 36

SPX or S&P500 Cash Chart:

This chart is very important to monitor especially because the cash index does not suffer from distortions due to futures premiums and discounts that will arise over the futures contract life.

ES futures basically have a trading life of 3 months and roll on to the next month.

Every time the ES contract rolls forward it will either come on with an expanded premium if the trend is up or in a bear market it can trade at a discount to cash.

The tone of the underlying market can be fairly gauged by the FAIR VALUE PREMIUM accepted between the cash market and the futures prices. The premium or the accepted discount implies the cost for people to trade longer term via the futures instrument.

As the ES market trades from the beginning of a 1st month rollover to the next 1st month rollover the premium or discount will change on a week to week basis.

You may not realize it but in the bear market of 2000-2002 a discount on the futures was par for the course even though the fair value carrying price against a similar amount of stocks and a leveraged futures contract was totally out of whack. Basically at the time sellers were paying an extra price to trade futures short for speculation if they thought the market was going down and buyers in the downtrend were getting an incentive (or discounted price) to buy against the trend.

THE POINT IS:
Although the continuous futures ES contract does justice to our method most of the time it is always not as technically accurate as you would like to believe.

To correctly evaluate the market geometry applicable to the charts over lengthy periods of time the SPX (Cash) market will be your best guide.

Often the 24 hour ES futures continuous has some large swings outside of the SPX day session geometry and it also suffers from distortions at rollover time that could cause a misleading analysis over longer time periods. It is important that you analyze both the futures and the cash charts.

Most people are unaware of this without it being pointed out to them.

When you have doubts about the ES the SPX cash chart is the best way to clear it up. I also study the OEX long term as well and between the two the picture becomes a lot clearer. I consider the OEX chart to be the most important.

Everything you can do to help yourself stay on top of this method of analysis and trading is a bonus in the long run. I cannot stress this point enough.

Back on July 24th 2002 SPX bottomed at 50% discount (to the point) to the March 2000 high and rallied for a month 190 points. The 50% reversal level was a Gann teaching that has been around for 60 or more years. If you had been using only a futures chart it wouldn't have showed up so accurately or as clearly.

Because in 2000 the S&P500 futures contract made a high on a 30 point premium to SPX and then by the 2002 low was trading at an 8 point discount to SPX.

On October 10th 2002 the ES futures false broke the July low for 5 minutes and 5 points and then rallied 50 points non stop for the rest of the day. The OEX did not break the July low that morning and was the leader of the band. As it stands now the S&P500 has never broken the October low since and is now up over 700 points from 2002.

ONE OF THE THINGS YOU SHOULD WATCH CLOSELY WITH THE SPX:

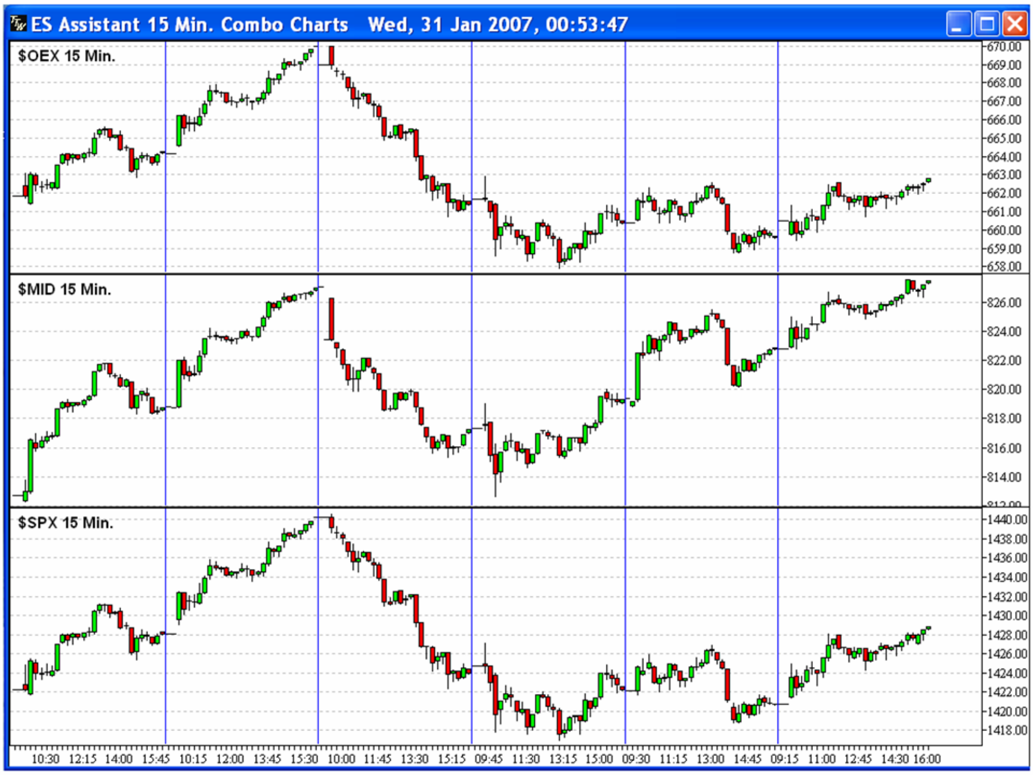
Is when the overall market is making new highs or lows in its LARGER DEGREE PATTERNS; is the OEX and the SPX making new highs or lows at the same time? If they are out of sync then there is good reason to beware that a change in trend is possible, in favor of the OEX chart.

For instance in 2004 the OEX made high in early February and over the next several weeks failed to go to new highs, whereas the SPX managed to make a higher high going into early March 2004 which was not confirmed by the OEX. After the March high in SPX the market went into a sideways decline terminating in August of 2004 with the OEX bottoming at the same time.

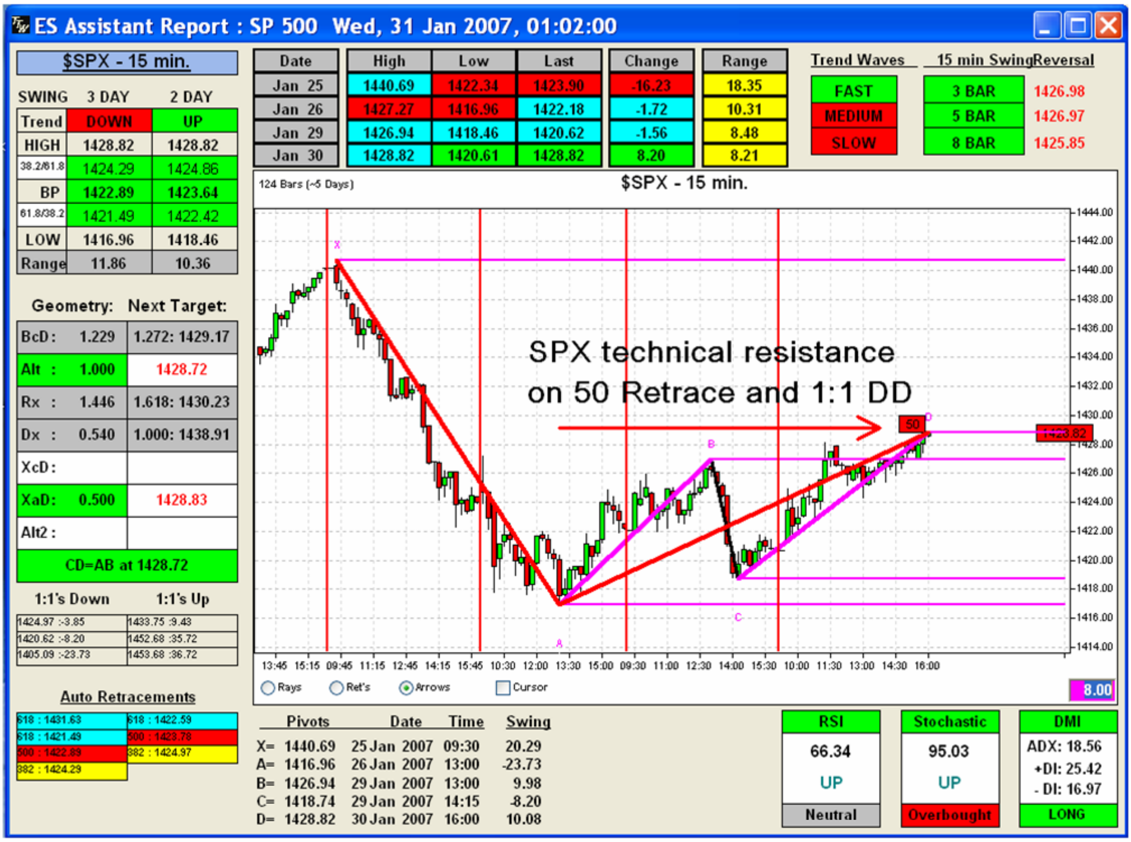
You should make a study of the LARGER DEGREE lows and highs in the SPX and OEX and you will get a better understanding of why I am saying what I am.

Another tool you can use to help with your analysis of the futures position is the cash DJIA. These are the top 30 industrials and they seem to capture the imagination of the world at large as to the health of the US stock market. In terms of relative position in the SPX they range in capitalization from 1 down to around 120.

WT-ES ASSISTANT - COMBO CHARTS in 5 or 15 Minute time periods:



WT-ES ASSISTANT - SPX analysis


ES Assistant Report : SP 500 Wed, 31 Jan 2007, 01:02:00
124 Bars (~5 Days)
$SPX - 15 min.
X
A
B
C
D
50
1428.82
1444.00
1442.00
1440.00
1438.00
1436.00
1434.00
1432.00
1430.00
1428.00
1426.00
1424.00
1422.00
1420.00
1418.00
1416.00
1414.00
13:45 15:15 09:45 11:15 12:45 14:15 15:45 10:30 12:00 13:30 15:00 09:30 11:00 12:30 14:00 15:30 10:00 11:30 13:00 14:30 16:00
○ Rays ○ Ret's ● Arrows ☐ Cursor
8.00

SPX technical resistance on 50 Retrace and 1:1 DD

$SPX - 15 min.

SWING	3 DAY	2 DAY
Trend	DOWN	UP
HIGH	1428.82	1428.82
38.2/61.8	1424.29	1424.86
BP	1422.89	1423.64
61.8/38.2	1421.49	1422.42
LOW	1416.96	1418.46
Range	11.86	10.36

Geometry:		Next Target:
BcD :	1.229	1.272: 1429.17
Alt :	1.000	1428.72
Rx :	1.446	1.618: 1430.23
Dx :	0.540	1.000: 1438.91
XcD :		
XaD:	0.500	1428.83
Alt2 :		

CD=AB at 1428.72

1:1's Down	1:1's Up
1424.97 :-3.85	1433.75 :9.43
1420.62 :-8.20	1452.68 :35.72
1405.09 :-23.73	1453.68 :36.72

Auto Retracements

618 : 1431.63	618 : 1422.59
618 : 1421.49	500 : 1423.78
500 : 1422.89	382 : 1424.97
382 : 1424.29	

Date	High	Low	Last	Change	Range
Jan 25	1440.69	1422.34	1423.90	-16.23	18.35
Jan 26	1427.27	1416.96	1422.18	-1.72	10.31
Jan 29	1426.94	1418.46	1420.62	-1.56	8.48
Jan 30	1428.82	1420.61	1428.82	8.20	8.21

Trend Waves	15 min SwingReversal	
FAST	3 BAR	1426.98
MEDIUM	5 BAR	1426.97
SLOW	8 BAR	1425.85

Pivots	Date	Time	Swing
X= 1440.69	25 Jan 2007	09:30	20.29
A= 1416.96	26 Jan 2007	13:00	-23.73
B= 1426.94	29 Jan 2007	13:00	9.98
C= 1418.74	29 Jan 2007	14:15	-8.20
D= 1428.82	30 Jan 2007	16:00	10.08

RSI	Stochastic	DMI
66.34 UP	95.03 UP	ADX: 18.56 +DI: 25.42 - DI: 16.97
Neutral	Overbought	LONG

Sometimes what you need to be aware of when the SPX "squares out price", is look at the OEX and find out its technical position at the same time. Because if the OEX has broken above or below some technical level that would have been the equivalent of what the SPX is doing the chances of a reversal are extremely remote. The OEX will point the way more often than the SPX.

I do not have a comparison chart to show you when the SPX chart I posted above was taken, nevertheless I can tell you that the OEX broke up and the technically strong reversal signs on the SPX were negated almost with minutes.

So believe me when I say use all the tools all of the time and then you will know what you should be doing.

Most of the things that go on in the stock market are psychological and related to the news and the technical opinions of traders. Yet at times there are over-riding influences from far stronger motivations and you need to keep track of where they are being generated from.

As I have said before the OEX exerts 60% of the influence on the SPX as far as capitalization is concerned. If the OEX movement is generating more influence than this, which could be as high as 85% or more then you only need watch the OEX as a guide to where the ES will go.

On the other hand if the OEX participation is lower than 50% of the daily gains or losses in the SPX, the market will more likely be stuck in a trading range for the day; Even if it isn't the market in SPX will most likely be sluggish overall.

An understanding of how the OEX and the other 400 stocks in the SPX relate to each other overall is very important to your degree of success as a trader.

We have a gauge system in our WaveTrader Assistant Mk III that monitors the progressive activity of the OEX performance as a total of the SPX gain or loss on the day, over 2 days and over 3 days.

Just remember if you want to understand why things happen the way they do you will have to work at it. I have no reason not to tell you the truth, it is up to you to believe it or not.

One word of advice:
If you have considered going to $10,000 seminars to learn the fast way then forget it. You won't learn any faster. All you will do is waste the money you could have had to experiment a little as you are gaining experience and screen time.

Chapter 37

The WINNING approach:

The only way to WIN in the long run is to take all the examples in this manual and learn from them; the best way is to anticipate what the traders are most likely to do given the present technical position and the current news available to the market.

The majority of traders moving the market on a day to day basis are the SHORT TERM traders.

Over time the LONGER TERM PLAYERS add direction or trend to the market as does the fundamental factors that are seen to persist.

Nevertheless each day thousands of traders step up to the plate and trade and mostly they are responsible for 95% of the daily volume. Possibly only 10% of these traders are competent over the long term, but the real issue is that only those who are following rules and patterns succeed, otherwise they could never remain at the top level.

One day they will be buyers and others they will be sellers. Hence the market goes up in two steps and back in one in a bull trend.

In a bear trend the market goes down in two steps and up in one.

It is a dance that we live with.

The main stream regular traders who are always in the market know all this and basically treat it this way. They have rules they follow having been learnt from years of experience.

This manual points out a basic strategy where we can use most of the commonly followed rules that the “smart money” relentlessly use to place trades or stops against present positions. Follow these rules and take advantage of the field.

Tiger Woods was interviewed today after winning 7 PGA events in a row. When he was asked how he managed to play such good shots in the final round to overcome his opposition he replied. “Well I have done it before so many times, so I know I can do it. So I don’t have any problems confronting my ability. I just go out and give it my best and it either works for me or it doesn’t. But the pressure never stops me going for my best shots to win as I know I can play them.”

Some years ago in one of my books I compared futures trading to playing good golf.

You need to have a wide variety of shots to play the game well and you need to know which club to use on each shot. There are 18 holes in a game and on the tour there are 4 rounds.

So you might hit the ball into the trees on occasion but it is how you recover that makes the difference to the overall score and how you finish the round.

Trading well is all about having a winning attitude and knowing which shots to play. Your short shots around the green are the most important to your score.

The best club in my bag is the OEX.

Whenever the ES does not make any sense the OEX should clear up the picture, if it doesn't then it is time to stand aside.

ALSO when the cash indices OEX, DJIA and SPX are in technical positions that demand attention the smart players will react to the signs.

From thereon you just follow the 1:1's, the double tops and bottoms and the retrace levels of 38.2, 50 and 61.8. There is no need to do more outside of figuring if the trend is in your favor.

The 3 important things that will make the market change direction are the geometry, the pattern and the news. If you are able to understand how all these things fit together you cannot go wrong.

Everything I know about the market has been addressed in this text so it is up to you to get a handle on it not me; I have done my part.

I wish you all the best in the future as this is the last book I am ever going to write on S&P trading.

One last thing though, if it all becomes to daunting and you are making things to complex for yourself then my advice is to step back and start afresh and keep things simple. Simple wins the day!

The more complex you make it the worse it becomes.

There is one final thing I need to remind you about in the stakes of market analysis and you should take this as my final words.

Markets move in waves of equal degree, when one degree overbalances you move up a degree in atmosphere of what you should expect to come next.

At the beginning of this text I stated that markets unfold in waves of similar degree when they are trending in that degree.

The degrees are:-

1. Smaller
2. Small
3. Minor
4. Large
5. Larger
6. Major
7. Cycle

Just remember that each wave degree has to comply to the rule of 1:1; that is while any correction in each wave degree does not overbalance a prior correction in that wave degree the trend is still intact (for that degree).

When a market makes Larger degree changes in trend it will mean that all wave degrees before it have overbalanced the trend progressively for each degree.

If you work with the market in 5 minute bars the smaller and small degrees will be obvious. These are the norm for day trading periods you would monitor unless you wish to really go back to 1 minute displays and trade scalps.

For the Minor degree you may need to extend your time frames to 10 or 15 minute. The 30 and 60 minute should be ample to cover the large degree waves.

For Larger and Major you would need to look at daily and weekly time frames.

For CYCLE you monitor the monthly charts.

From the Hot Comm room.
{BBG} If you want to win in this business all you need to know is what people SHOULD DO UNDER THE GIVEN CONDITIONS
10:46:41 **{BBG} they either do it or they don't**
10:46:57 **{BBG} whichever, you can always work around that.**

Bryce Gilmore.
April 20th, 2007

Chapter 38

Weekly and Monthly Charts:

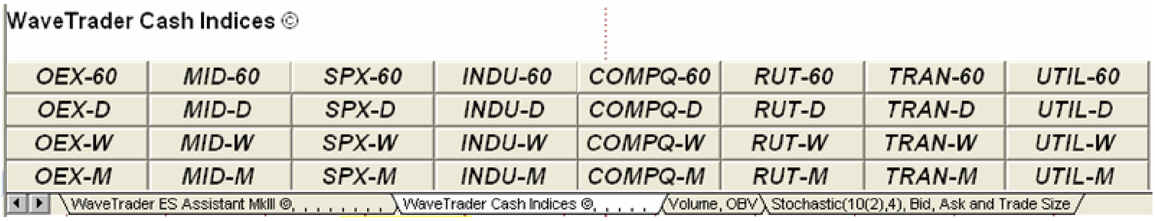
Weekly and Monthly charts will keep you aware of the bigger picture. The same technical principles of analysis apply equally as well.

It always pays to keep a note of the bigger picture even if you are an intraday trader.

Recently we introduced an additional eSignal efs to work in conjunction with our WT Assistant MK III software specifically to make it easier for us to monitor all the main cash indices in the US stock markets.

Rather than take hours to rove through them in eSignal it was easier to create an efs to flash them up each time the market was heading down or up, into areas which may influence the bigger picture traders such as the funds who are longer term buyers and sellers.

This efs covers the following TICKERS in time frames of MONTHLY, WEEKLY, DAILY and 60 minute:-



WaveTrader Cash Indices ©

OEX-60	MID-60	SPX-60	INDU-60	COMPQ-60	RUT-60	TRAN-60	UTIL-60
OEX-D	MID-D	SPX-D	INDU-D	COMPQ-D	RUT-D	TRAN-D	UTIL-D
OEX-W	MID-W	SPX-W	INDU-W	COMPQ-W	RUT-W	TRAN-W	UTIL-W
OEX-M	MID-M	SPX-M	INDU-M	COMPQ-M	RUT-M	TRAN-M	UTIL-M

WaveTrader ES Assistant MkII ©, ...
WaveTrader Cash Indices ©, ...
Volume, OBV
Stochastic(10(2),4), Bid, Ask and Trade Size

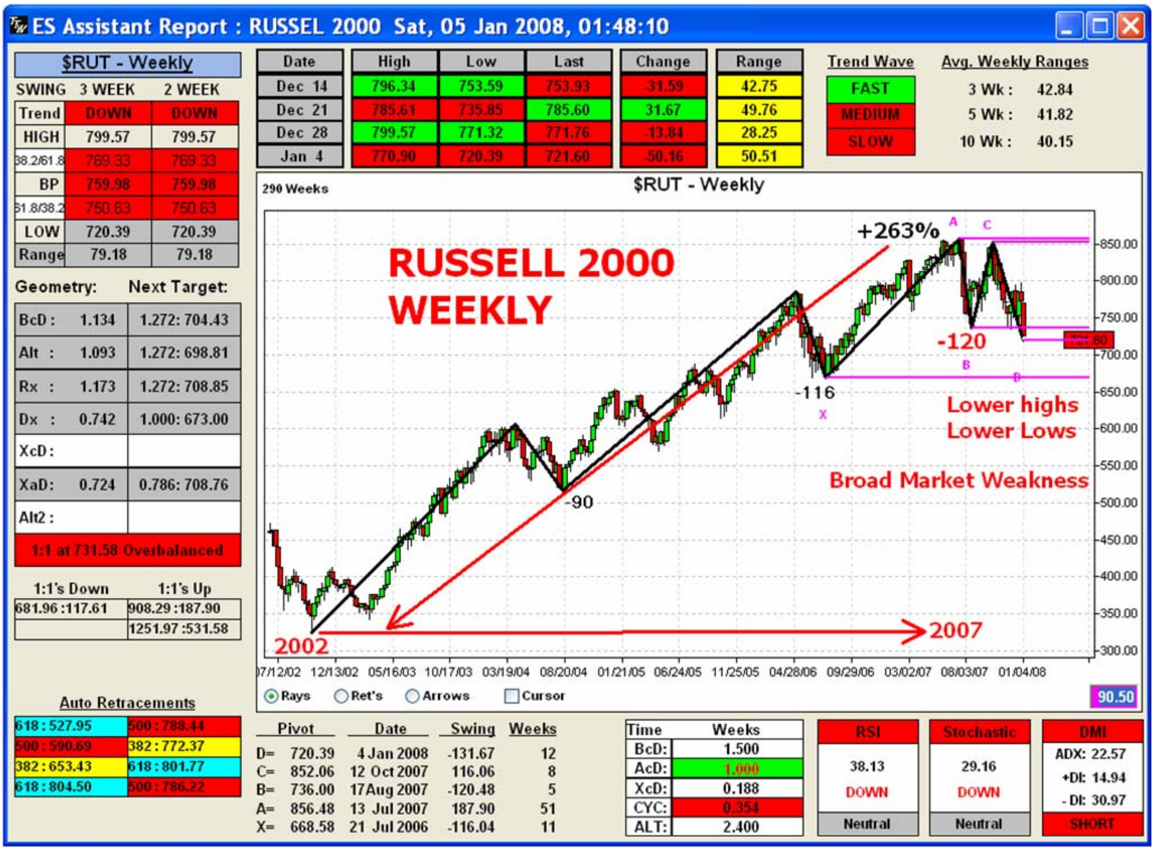
It works on the same report system as our WT- ES Assistant Mk III and is not a stand alone accessory. All you do is click on the buttons for each ticker and reports are displayed immediately.

Although there is no need to watch the weekly and monthly charts on a day in day out basis it can help over time if you have these charts at your finger tips as if you don't you may get lazy and put off looking at them.

The real value of having these charts at your finger tips is so you can compare the state of each individual index and ascertain its state of strength or weakness.

The more of these indices that are going in the same direction then the stronger the trend will be for the overall market. You will get the picture when you have enough screen time on the job.

You will also find that when the weekly and monthly charts encounter MAJOR resistance or support levels that the day session trading action can become somewhat erratic as the longer term players start acting without consideration for the intraday rules that we employ.



ES Assistant Report : RUSSEL 2000 Sat, 05 Jan 2008, 01:48:10

$RUT - Weekly

SWING	3 WEEK	2 WEEK
Trend	DOWN	DOWN
HIGH	799.57	799.57
38.2/61.8	769.33	769.33
BP	759.98	759.98
61.8/38.2	750.63	750.63
LOW	720.39	720.39
Range	79.18	79.18

Date	High	Low	Last	Change	Range
Dec 14	796.34	753.59	753.93	-31.59	42.75
Dec 21	785.61	735.85	785.60	31.67	49.76
Dec 28	799.57	771.32	771.76	-13.84	28.25
Jan 4	770.90	720.39	721.60	-50.16	50.51

Trend Wave
- FAST
- MEDIUM
- SLOW

Avg. Weekly Ranges

3 Wk :	42.84
5 Wk :	41.82
10 Wk :	40.15

Geometry:	Next Target:
BcD : 1.134	1.272: 704.43
Alt : 1.093	1.272: 698.81
Rx : 1.173	1.272: 708.85
Dx : 0.742	1.000: 673.00
XcD :	
XaD: 0.724	0.786: 708.76
Alt2 :	

1:1 at 731.58 Overbalanced

1:1's Down	1:1's Up
681.96 :117.61	908.29 :187.90
	1251.97 :531.58

Auto Retracements

618 : 527.95	500 : 788.44
500 : 590.69	382 : 772.37
382 : 653.43	618 : 801.77
618 : 804.50	500 : 786.22

● Rays ○ Ret's ○ Arrows ☐ Cursor

	Pivot	Date	Swing	Weeks
D=	720.39	4 Jan 2008	-131.67	12
C=	852.06	12 Oct 2007	116.06	8
B=	736.00	17Aug 2007	-120.48	5
A=	856.48	13 Jul 2007	187.90	51
X=	668.58	21 Jul 2006	-116.04	11

Time	Weeks
BcD:	1.500
AcD:	1.000
XcD:	0.188
CYC:	0.354
ALT:	2.400

RSI	Stochastic	DMI
38.13	29.16	ADX: 22.57
DOWN	DOWN	+DI: 14.94
		- DI: 30.97
Neutral	Neutral	SHORT

290 Weeks
$RUT - Weekly
RUSSELL 2000
WEEKLY
+263%
A
C
B
D
X
-120
-116
-90
Lower highs
Lower Lows
Broad Market Weakness
2002
2007
850.00
800.00
750.00
700.00
650.00
600.00
550.00
500.00
450.00
400.00
350.00
300.00
07/12/02
12/13/02
05/16/03
10/17/03
03/19/04
08/20/04
01/21/05
06/24/05
11/25/05
04/28/06
09/29/06
03/02/07
08/03/07
01/04/08
90.50

Here is my latest example of the RUSSELL 2000 weekly chart from the Cash Indices.efs routine. Who took the time to look at it today (5th Jan)? I did.

It made high in July 2007 and failed to go higher in October 2007 when the DJIA, OEX and SPX stocks made new highs for a period of only several days. This is a form of broader market divergence indicating weakness and a potential change in trend.

Now it is the 1st week of 2008 and $RUT has made a lower low than August 2007 ahead of the “Blue Chip Indices”. You can work out for yourself what this may mean, but my interpretation is that long term investors are battening down the hatches for “bad weather on the horizon”.

If you don’t remain current and up to date with all aspects of the market you will find that it only ends up leading to bad decisions. Something similar to not checking the tire pressure on your car before you set out on a long trip.

Chapter 39

My favorite set ups for the ES:

I decided to add this chapter on a rewrite recently.

1. BREAKOUTS when the OEX and the DJIA are confirming new advances or declines.

2. DISTRIBUTION SELLS when the market falls through support below prior pivot support and any short term 1:1's on the OEX, DJIA and SPX.

3. 1:1 CORRECTIONS when the market is showing it is trending in the direction against the present set back. As long as OEX is intact in that trend it is always a go sign.

4. 1:1 Double Drive levels when the move is a correction and is terminating on a 50, a 61.8 retrace or a prior smaller pivot level.

5. BREAK BACK trades where the market just penetrates to new highs and runs into massive lack of buying and falls back into the range it just broke out of.

6. Breakouts from RECTANGLES in the smaller patterns which basically say we are heading into new territory.

7. DOUBLE TOP sells when volume is low.

8. DOUBLE BOTTOM buys when volume is low.

9. BUYING or SELLING on GAP fill targets when other criteria is present.

10. Entering the new direction on a 50/61.8 mini retrace after a MINOR DEGREE high or low has been identified.

These should be enough to fill your suit case with money if that is all you want.

The Market:

The market has a will of its own; it also maintains a structure for us to work with. It is not always predictable but one of two things will always alert you to its next possible direction.

1. It's ability to demonstrate that technical traders and system followers **are in control.**
2. It's ability to demonstrate that technical traders and system followers **are not in control.**

Whichever the case that unfolds you just have to work along with it and believe what you see and not what you think.

Markets will move up and down in spurts with consolidation phases along the way, you can be certain of this; these compensations maybe small or they maybe large depending on the extent of the preceding advances or declines.

For every move up or down of any strength there will be a compensation move in the opposite direction.

The reason PRICE ACTION TRADING is so valuable is that it does not trap you into holding positions that you would otherwise have to ride out for the inevitable corrections that come along as a larger degree trend moves from infancy to maturity.

PRICE ACTION TRADING allows you to move with the market swings as if you were in a dance with a reluctant partner.

When you get the idea of it you will be a position to remain in control without the problems most investors face.

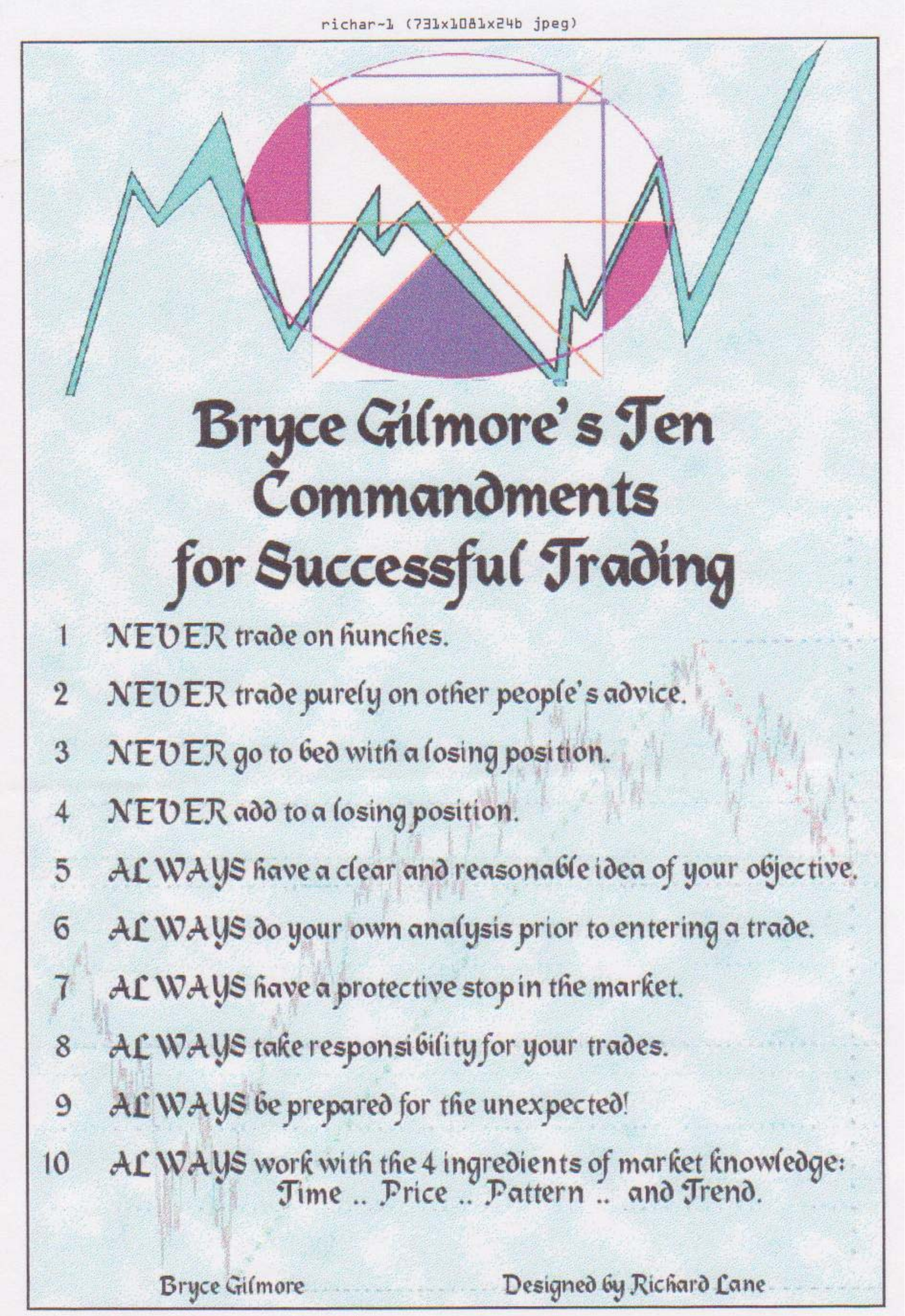
PRICE is your first consideration at all times, nevertheless you have indicators such as the TREND WAVE, OBV and SLOW STOCHASTIC to filter out doubtful trades in times of uncertainty.

So if you want to succeed at trading learn the ways of the market and then just take advantage of them when the signs are clear.

I cannot really tell you any better way. Once you have sufficient screen time everything should fall together for you.

BBG

Chapter 40



richar~1 (731x1081x24b jpeg)

Bryce Gilmore's Ten Commandments for Successful Trading

1 NEVER trade on hunches.

2 NEVER trade purely on other people's advice.

3 NEVER go to bed with a losing position.

4 NEVER add to a losing position.

5 ALWAYS have a clear and reasonable idea of your objective.

6 ALWAYS do your own analysis prior to entering a trade.

7 ALWAYS have a protective stop in the market.

8 ALWAYS take responsibility for your trades.

9 ALWAYS be prepared for the unexpected!

10 ALWAYS work with the 4 ingredients of market knowledge:
Time .. Price .. Pattern .. and Trend.

Bryce Gilmore

Designed by Richard Lane